MODERN BUSINESS

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MERCHANDISING

BY

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MODERN BUSINESS

VOLUME 19

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PREFACE

In the Text on "Marketing Methods" there is a general survey of the different steps in marketing from the producer to the consumer as well as a discussion of the function and present status of manufacturer, jobber and retailer. The latter chapters of "Marketing Methods" outline in detail the operating methods of the manufacturer in marketing his goods. The corresponding operating methods of the wholesaler or jobber and of the retailer remain to be discussed and this is the purpose of the present volume on "Merchandising." The reader is assumed to be well grounded in the principles of marketing as discussed in "Marketing Methods," as well as in those of organization and management, advertising, salesmanship, accounting, credits and the other subjects preceding this in the Course.

Methods of doing business are changing daily, especially in trading concerns; therefore it has been necessary to make a special investigation of the field for the purpose of this Text. In this work a number of experienced investigators have assisted me in collecting the necessary information. The work has been done largely by interview, and visits to various business centers of the country were made for the purpose. This was supplemented by a large amount

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of correspondence together with questionnaires. Finally each chapter as prepared has been read by several authorities on each topic. Some were university teachers; some editors of trade papers; some secretaries of trade associations; but most were officers in or proprietors of wholesale and retail concerns.

To give individual credit to each one who has assisted would be out of question, for the number would be several hundred; and in addition many good suggestions and much valuable material has been obtained by checking over the files of correspondences with Institute subscribers. So the limitations of space in the preface require the author, much to his regret, to content himself with one general acknowledgment of his indebtedness.

It is possible, however, to give personal credit to my assistants. First, I must mention Mr. W. L. Durant, who has worked with me on the whole volume and to whom much credit is due. Next, I want to record my indebtedness to Messrs. D. H. Eastmead, George F. Hamilton, Max V. MacKinnon, R. B. Shumway and Harold B. Kreider, each of whom assisted in the work of investigation and the preparation of the manuscript. In addition various members of the Institute Staff collaborated frequently, while others, especially Messrs. Cuthbert Hague, Ernest E. Jenks and the late Allan C. Carroll, cooperated heartily in my regular work so that I could get time to give to the preparation of this volume.

JOHN B. SWINNEY.

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PART I

WHOLESALE MERCHANDISING

WHOLESALE MERCHANDISING

CHAPTER I

THE SELLING FIELD

1. *Status of wholesale merchandising.*—During recent years, business executives have made an insistent demand for improvement in working methods. There the easiest point to attack was the factory. The results were so startling that the work has been extended to the office and finally to the sales force. The manufacturer, therefore, was the first to apply the modern methods of analysis and planning to marketing.

The wholesale merchant or, as he is generally called, the jobber, was the last member in the distributing process to feel the necessity for modern methods. When he saw many manufacturers selling direct to the retailer and many retailers in turn buying direct from the manufacturer, he realized how precarious was his position in the distributing chain. As soon as he began to study the situation thoroly, he found there was a wide-spread impression that the jobber is not a necessary factor in marketing and that at best he is a wasteful one. A thoro revision of jobbing methods is now being made, and already many jobbers are as

up-to-date in their merchandising as any manufacturer or retailer. Those who do not follow the lead of their more progressive competitors cannot expect to outlive their generation.

2. *Point of attack.*—In order to study wholesale merchandising systematically, it is advisable to proceed as if a new wholesale house were to be organized. The methods to be considered are equally applicable to old and well-established houses. Probably more jobbers fail because they do not frequently check over the business from the beginning and revise their methods and policies so as to harmonize with changing conditions, than from any other one cause.

The first task of the wholesaler is to make a thoro analysis of his territory and of the competition at present existing within that territory. In general, it is much the same sort of analysis that the manufacturer makes when he sizes up the market for his product, and of this there is full discussion in the Modern Business Text on "Marketing Methods." However, the jobber's analysis differs in detail, because his working conditions are not the same as those of the manufacturer.

3. *Radius within which jobber can compete successfully.*—The jobber begins by blocking out roughly his selling field. This is more dependent upon the facilities and rates for shipment than on any other single factor, because the jobber often pays not only the transportation charges but also cartage to the retailer's store. In any case the shipping cost is a

factor to be considered in figuring the net cost of goods delivered to the retailer. When a Chicago grocery-jobber solicits business in New York in competition with New York jobbers, he must either pay all charges to the retailer's door, make a lower price, or offer some other inducement to offset the competitive advantage of the nearby jobber. On staple lines no other inducement is possible and since the margin of profit will not permit paying freight and cartage charges, the Chicago jobber cannot compete. The result is that he solicits business in New York on private brands only.

In other lines, such as dry-goods and hardware, it is not customary to prepay freight. Therefore the Philadelphia dry-goods jobber in competing for business in New York against New York jobbers must do so on a basis of service, style, price or some other factor. It is a serious economic question whether the Philadelphia dry-goods jobber should do business in New York in staple lines. If he cannot get the business by superiority of style and pattern or thru the policy of the house for quality and service at a fair price; if he must resort to what is really price-cutting in the way of freight concessions, so that he acts as a mill distributor at no profit, it would be better to do less business in a smaller territory at a profit. The problem of the jobber, therefore, is to analyze thoroly the traffic situation in order to determine just how far from a central point he can distribute the different classes of merchandise in competition with other jobbers in his own and neighboring cities.

4. *Radius within which jobber can work intensively.*—Wholesalers are coming to realize that they should work their selected territory more intensively if they are to increase their profit and to realize also that there is an increasing amount of loss in jobbing done at a distance from the home city. The jobber who scatters his sales efforts over a wide territory increases the cost of jobber service generally thru duplication of sales effort. In outlying territories, he gets a little business at a high cost, to the disadvantage of local jobbers to whom it rightly belongs and at a loss to all others concerned. The president of a wholesale hardware house in Chicago asserts that he cannot operate intensively outside a radius of 150 to 200 miles.

5. *Radius within which the jobber can render efficient service.*—After all, the only thing the jobber has to sell is service. In determining the jobber's operating territory, therefore, the preceding factors are of less importance than the consideration of the radius within which he can render proper service. The jobber who tries to do a nation-wide business from one point, without branch houses, is at a serious disadvantage and it is doubtful whether he can give his customers that measure of service to which they are entitled and for which they pay. One wholesaler says it is impossible to give efficient service beyond a radius of 200 to 300 miles. Conditions vary with different lines. A grocery jobber sets the limit on staple lines at 100 miles, while a dry-goods jobber thinks he can serve well within an average radius of 500 miles.

Various factors must be considered as an index to the jobber's ability to render good service. One factor is the time required to make deliveries. Retailers are more and more buying in small quantities in order to reduce stocks and increase their turnovers. Naturally the jobber who can deliver the goods most promptly will get the business. Consequently, in making his traffic map the jobber considers the time required to make delivery at each principal point in his territory. The effect of the jobber's location on his ability to obtain his merchandise from manufacturers and producers must also be considered.

6. *Study of business cycles.*—As every student of business knows, there is a distinct tendency for periods of business depression and prosperity to move in cycles. Thus a period of depression will be followed by successive stages of readjustment, improvement and prosperity. The exact duration of these cycles cannot, of course, be definitely predetermined; they are, however, recurrent and their separate parts follow one another in the same order. During 1908 and 1909, conditions in the United States were generally bad, following the panic of 1907. Factories were running on part time, many employes were idle and people had less money than usual to spend. As a consequence, few new business enterprises were organized and established concerns were forced to retrench. The mercantile world suffered severely and many large wholesale and retail houses failed. Periods of readjustment and prosperity followed. These

cycles are likely to be less pronounced in the future than they were before the inauguration of the present Federal Reserve banking system. The study of business conditions is begun by checking up the periods of expansion and depression so as to forecast their effect on the immediate future. For a fuller discussion of the cycle of trade the reader is referred to the Modern Business Text on "Investment."

Sometimes it happens that a generally depressed business condition is advantageous for a particular line. The makers of Karo Corn Syrup were about ready to market their product when a panic occurred. In spite of it they went ahead, for they concluded that there would be many people who would have to forego the use of butter and who would buy the cheaper product, Karo, as a substitute; and they were right. Such opportunities are not frequent with manufacturers, but it is always possible to adjust a jobber's sales effort to changed conditions because, unlike the manufacturer, he can change his lines of merchandise almost overnight.

7. *Effect of crop conditions.*—It is, of course, obvious that when the cotton crop in the South or the corn crop in the Middle West is good, buying is more liberal in these sections. But the effect is not entirely local. Crop conditions have their effect on distant parts of the country. The grocery jobber who operates only in central New York must consider the wheat crop of the West and the cotton crop of the South as factors to reckon with in studying business

conditions generally and their effect on his territory. Full reports on crop conditions are issued regularly by the Bureau of Crop Estimates of the Department of Agriculture.

8. *Other guides to business conditions.*—An excellent guide to business conditions is found in the production of pig iron. Iron is of such universal use that the amount of production reflects the economic condition and buying power of the population as a whole in the same manner as does the crop condition. Other evidences of prosperity or its opposite may be found in the amount of bank clearings, and in the balance of trade as evidenced by the discount rate between local cities and financial centers. Then, too, the conditions in specific industries must be considered. For instance, during the latter part of 1916, mining sections such as those of northern Michigan and Butte, were exceedingly prosperous while in the lumber sections of the Northwest, business was dull.

It is not difficult to keep informed on business conditions if one will read intelligently the financial page of the average metropolitan newspaper. Information obtained from this source serves as an excellent check upon the reports of traveling salesmen, for salesmen are sometimes inclined to report conditions as bad to excuse their own failure to get business. A knowledge of market conditions from general sources enables the wholesaler to judge whether or not he is getting his share of business from each section of his territory. For more detailed discussions

of the methods of an analysis of business conditions the reader is referred to the chapters on Business Barometers in the Modern Business Text on "Investment."

9. *Total consumption capacity.*—The total consumption of any one of the jobber's commodities in his territory may be estimated without great difficulty. A family of four is assumed as a unit—consisting of father, mother and two growing children. Then the average family is considered from the standpoint of nationality and station in life. With these factors as a basis, a preliminary investigation is made in various parts of the territory to find out how much of a certain product in the jobber's line is used by such a standard family. By carrying the investigation far enough to obtain results that are uniform and reliable, an average consumption capacity is deduced. For instance, in one section of Greater New York it has been found that the average consumption of laundry soap on the part of American, German and Irish families in homes in which the family washing is done at home, is about 104 cakes per hundred families per week.

After obtaining the average consumption capacity by groups, according to nationality, station in life, etc., it is easy to get the total capacity by sections of territory. The United States Census, together with the Abstract, forms the basis of calculation and this can be brought up to date by estimating probable changes. This can in some instances be checked by state census reports. The jobber should estimate the current distribution of business among the various

jobbers operating in the territory and, if he is already in business, match his own sales against the maximum or consumption capacity in order to determine what percentage of the total volume he is securing.

Various other agencies will be of service in gathering these data. No one jobber could afford to go to the expense of determining from original investigations the exact consumption capacity in each article he sells. He can, however, get sufficient information on many products to enable him to estimate it without making a complete survey of his market. Frequently trade associations have reliable data. Often a manufacturer of a single line has compiled figures and is willing to give them out. Sometimes information is to be had from government reports or one of the statistical houses, such as Roger W. Babson, Inc., of Wellesley Hills, Mass. There is a more detailed discussion of this subject, from the standpoint of advertising, in the Text on "Advertising Campaigns."

10. *Condition in the jobber's own lines.*—Next in importance to general conditions are those to be found in the trade itself. Is the market growing or shrinking? Take the automobile supply business as an example. It is easy for the jobber to judge the market because he can readily obtain, from the state official who issues automobile licenses, the figures for present and past years so that he may know exactly how fast the sale of automobiles is increasing in the state and within his radius of operation.

11. *Study of the consumer.*—The jobber will not

study the consumer quite in the same detail as the retailer would study him but, nevertheless, both manufacturer and jobber cater ultimately to the consumer and therefore, each must know the consumers as a class, if not individually. Goods are made for the consumer, not for the jobber or retailer, and so every step in distribution must be planned from a knowledge of the needs of the consumer.

In making such a survey the jobber divides his territory into sections and then analyzes each section according to the various sources of income. He estimates how many people or families there may be in each section dependent upon agriculture for a living, how many are engaged in manufacturing and the number in every other form of activity in which there may be any appreciable number. The average earning power of each group as well as the totals by groups is estimated, and any factors affecting stability of income, such as labor conditions, are taken into consideration. Then comes a consideration of the inherent characteristics of consumers by classes, as determined by nationalities and mode of living. The jobber should attempt to push those goods which he is sure will satisfy a known or predetermined demand. Very often the consumer will have to be educated up to the point of appreciating the need and uses for a given article. More often, however, thru the forces of national advertising, the consumer already desires the article but the machinery of distribution is not properly organized to get the article to him when he wants

it most. In taking on a new line, the wholesaler often loses heavily because he is making a gamble on the precise demand for the class of goods and its appeal to the consumer. Much of this loss could be eliminated if he would be guided in his buying by an intimate knowledge of the consumers' wants and the amounts which they are ready to spend upon the commodity in question.

Frequently, the jobbers of a section combine in this work, as was the case in Council Bluffs, Iowa, during 1916, when all the jobbers thru their trade association united in carrying on a survey of the territory to learn market conditions for their commodities. The time is coming rapidly when there will be a spirit of cooperation among the competing jobbers so that all may profit by such data without the great expense of getting it individually.

In some cities the task of analyzing retail trade conditions has been assumed by the retail trade department of the local chamber of commerce, and with effective results. Many believe that the commercial survey of a community should be the first task of the commercial organization of the city.

12. *Study of the retailer.*—Obviously the first thing the modern jobber does in sizing up the retail situation is to make a list of all dealers in his line within the selected territory. A card catalog system classified by towns is the most suitable. In order to maintain the record of per capita distribution to the consumer, the wholesaler must keep his dealer record up to date and include in it not only the dealers to whom

he already sells, but all other dealers in his territory. Very often a low distribution to the wrong class of stores will bring about the failure of an otherwise commendable sales campaign.

In order to secure accurate information of the appearance of new dealers in the field and the exit of old dealers, it is necessary to adopt a quarterly or semi-annual survey of the whole field, covering every dealer. Such a survey is most efficiently and economically conducted by having the jobber's salesmen call on all dealers at given periods. Each salesman should be supplied with a complete list of names and addresses of dealers at the time of the last survey. A study of those reported out of business will give valuable ideas as to the trend of general business conditions in the territory.

13. *Classification of retailers.*—The record of each dealer should show the form of organization followed —whether a sole proprietorship, partnership or corporation; the officers of the company, a brief history of the business, the capital invested, the amount of business done, the promptness with which bills are paid, and something of their business policies, such as the class of business to which each caters. It is equally important to classify retailers according to the cost of delivering goods to them. This is generally done by means of a separate tab system on the cards to segregate different sections of the territory according to freight rates and according to the time required for delivery. The nature of the wholesaler's business and

his policies may dictate the necessity for other facts regarding the retailers. Some wholesalers, for instance, in an attempt to get new business and even in order to hold old business, offer easy credit terms and naturally cater strongly to retailers who are "slow pay," even tho they may not realize the loss which such a policy is likely to incur. Frequently, if the facts are met squarely, such jobbers have little on which to appeal for business than a willingness to allow long credits. Such jobbers have only themselves to blame for the bad credit conditions of which they complain so bitterly. Other jobbers demand that bills be met promptly and cut off the credit of the retailer who will not do so. They realize that it is useless for them to bother long with the chronic delinquent. Various other facts regarding each retailer should be collected, as follows:

(a) Does the retailer buy mainly from jobbers or is he trying to go direct to the manufacturer?

(b) Does he buy in large or small quantities?

(c) How do the various dealers in each community rank in effectiveness? Why are some getting stronger, and which are on the decline?

(d) What retailers, possibly new to the business, have possibilities of development in which the jobber might cooperate?

Next, the jobber classifies the dealers as to the probability and feasibility of their being brought to deal with him in preference to a competitor. He naturally devotes his most intensive effort toward selling

to retailers who are in his natural territory and he considers this area his primary market, his major source of revenue and profit. But the progressive jobber always keeps an eye on his secondary market with a view to the establishment of branch houses unless the secondary market is, at the same time, a logical primary market for other jobbers. If the secondary market is also a secondary one for other jobbers, it becomes a logical territory for expansion and the jobber will frequently do business there, even at a loss, in order to create good-will upon which to build a branch business.

14. *Source of information on retailers.*—In the gathering of information concerning the status of retailers in any jobber's territory, the wholesale and trade associations and the trade magazines are able and willing to lend valuable assistance to wholesalers all over the country. Manufacturers frequently compile data secured in developing their marketing plans and those who operate thru jobbers are anxious to share these data with them. After all, however, the jobber and his office executives must go out and get acquainted with their own retailers, for retailers generally do not "go to market," as was customary fifty years ago. The president of one western grocery jobbing concern claims to know personally seventy per cent of the retailers in his territory, thru visits to them in their stores. Trade trips, such as are conducted by local jobbing trade associations and by the wholesale bureaus of chambers of commerce, are of

inestimable value if conducted along proper lines.

15. *Reports from salesmen.*—Salesmen are of course required to report on conditions in each retailer's business and in each community. Naturally this can be overdone, for a salesman cannot be expected to give up every evening to writing out long reports. He feels his first job is to sell goods and that he has served his firm well when he has put in a good day's work as a salesman. Yet it is a fact that the average jobber's salesman wastes much time during the day waiting for customers or train connections, and in addition to this a little evening time can easily be used to furnish with each order a few salient points regarding the dealer in question. Some houses find it best to provide a series of printed questions which can usually be answered by "Yes" or "No," while others prefer to supply a daily report blank without questions on which the salesman can give a running account of anything of interest to the house. The former method succeeds best with the average salesman.

16. *Analysis of competition.*—A thoro investigation of present conditions in wholesale merchandising shows that relatively few jobbers make any systematic analysis of their competition. Every progressive manufacturer studies his competition from the standpoint both of production and distribution. The up-to-date retailer—particularly the manager of chain stores—also makes such a study carefully. On the other hand, many jobbers depend upon the casual re-

marks of their salesmen to keep them informed regarding the activities of their competitors. The few who do check up from time to time the business of competing jobbers are among the really successful. Such work need not be considered as spying and, in fact, should not be carried to the point where it results in following the methods of others rather than in developing new ones.

In many lines competitors are coming to realize that cordial cooperation is better than cut-throat methods. This desirable attitude began with the exchange of credit data and is spreading slowly, so that in some trades information as to general business conditions, volume of business of each jobber, prices obtained, credit losses, cancelations, claims and the like, are reported weekly thru the trade association. The secretary tabulates the data, assigning a number to each jobber in place of his name, and sends the report out to each member. This enables each jobber to know the conditions of the business generally and of his business in particular, in comparison with that of his competitors.

In sizing up competition, the jobber will first list the competitors in his territory. Investigations seem to prove that the ideal market consists of at least three competitors. One investigation showed that a single jobber in the market did less business than when he had a competitor. No doubt this was due to the fact that he greatly curtailed his service and did not try to secure business with the same amount of hard

work as when competition was keen. But, at the same time, it must be remembered that too much competition, of necessity, increases the cost of distribution.

The jobber should find out the resources of each of his competitors. This information can easily be obtained from any commercial agency. He can then determine whether his capital will enable him to meet the competition successfully. The strength of many a jobbing house lies in its financial power rather than in its merchandising ability.

The jobber may find that the territory of one or two of his competitors overlaps his own territory only at certain points, and accordingly that competition will be met only at these points. Jobbers' territories frequently overlap in such a way as to cut the profits of all concerned. Incidentally this duplication of effort is a burden to the retailer in that too much of his time is taken by salesmen, and eventually the added expense of the duplication and overlapping must be paid by the retailer and passed along to the consumer.

The jobber should also know how long each one of his competitors has been established. From this fact he can determine whether they have built up any great amount of good-will. Good-will is one of the strongest assets of a jobber and therefore it forms one of the hardest kinds of competition to meet. In fact, the only way he can meet it is by adopting some means of creating an even greater force of good-will toward his own house. It is also important to ascertain whether the business of his competitors has increased or de-

creased during the period they have been in business. By means of these data he can eliminate those competitors who are standing still or whose business is declining, and at the same time know just who are the most progressive and who will prove his strongest competitors.

17. *Business policies of competitors.*—In the chapter which follows, the method used by the jobber in determining his business policies is discussed. Naturally this is based largely upon an analysis of the selling field and of competition. In connection with the latter, a thoro study should be made of the business policies of competitors. The jobber should size up the personnel of each competing firm and then analyze its policies on sales, credits, dealer cooperation and the like. For instance, he may find that one competitor is inclined to overstock his customers while another may have built up good-will thru helping the retailer turn over his stock frequently. The various questions of policy as well as the method of doing business in each department should be tabulated in order that the jobber may know how to meet his competitors' good points and how to take advantage of those in which they are weak.

The modern jobber does not build his business on guesswork. He knows the facts before he begins. Nor is he content to continue his business on the basis on which it was started. His competitors are changing constantly just as his selling field changes. The weak competitor of yesterday may be the strong com-

petitor of tomorrow. Therefore the analysis of the selling field and the competition must be continued as a basis for keeping the business policies and methods in harmony with changing conditions. But the analysis must be used to help the jobber to lead in his territory, not to follow or copy his competitors.

REVIEW

What is the function of a wholesale merchant?

How are a jobber's activities confined?

What principles should guide the jobber in determining his field?

What should the jobber know about general business conditions? About the retail trade?

How may the jobber get the necessary information?

How may a study of the competition help the jobber?

CHAPTER II

MERCHANDISING POLICIES

1. *Two kinds of business policies.*—The jobber's business policies are of two kinds: those that concern his relations with his employes and those that concern his relations with his customers. The former are generally called house policies and of these the wage system for employes is an example. The methods of determining these house policies are discussed in Chapter VIII. Here we are concerned only with merchandising or trade policies such as those in regard to price, competition or credits. These will represent the code of laws by which the business is to be conducted, and by which all marketing questions are to be settled.

2. *Main sales appeal.*—When the Simmons Hardware Company placards the country with their slogan "The quality is remembered long after the price is forgotten" they are simply announcing their main sales policy. Another announces, "Our catalog is our only drummer," while a third declares itself to be "The house that always has the goods you want when you want them." A merchandising business without a "big appeal" is without reason for existence, for it is without guidance toward the main drive for busi-

ness. Yet it is not necessary that this appeal be used as an advertising slogan. Great care should be used in its selection, for unless the jobber can live up to an announced standard, the appeal becomes a boomerang. Every wholesaler must find his natural source of profitable business, determine his main sales appeal and from that his main sales policy.

3. *Marketing policy.*—Is the marketing policy to be a case of "Let the buyer beware" or is it to be the more modern policy of considering the jobber and the retailer as cooperators in the distribution of merchandise so that whatever harms the retailer is deemed bad policy for the jobber? In the latter case, the jobber will not consider his obligation ended until the goods have been sold to the consumer at a fair profit, so as to turn over the retailer's stocks promptly and leave his shelves clean at each season's end. In fact, the obligation must go even further, for the transaction is not closed until the goods have proved satisfactory to the consumer.

When such a sales policy is followed the jobber and his sales force will assist the retailer in selecting the best goods in proper amounts for the retailer's trade, so that he may not become overstocked. The wisdom of this policy is proved by the rapid development in recent years of hundreds of jobbing houses that have followed it. One house specializing in underwear has gone so far as to develop a stockkeeping system for retailers, which forms an accurate guide to the movement of all stocks so that the retailer may know

which are the best sellers and exactly how fast they are selling. The system classifies these facts according to style, weight, color and size, and does all with little effort on the part of the retailer or his clerks. The jobber can well afford to assist in developing such a system. It puts the responsibility for correct buying where it belongs—upon the retailer.

4. *Price policy.*—In a retail business the maintenance of the same price to everyone is customary and is not open to question. In the jobbing field conditions are different and vary with each line. If the Chicago grocery jobber were operating only in Chicago, a uniform price would be consistent. But when he invades St. Louis, he finds competitors who can deliver from their own warehouses so that there will be no freight expense, while the transportation cost from his establishment in Chicago is a considerable item. Therefore, if he is to compete successfully he must pay the freight and cartage or make a corresponding allowance.

5. *Locality price.*—The result is what may be called a locality price. The Chicago wholesaler in paying freight on shipments to St. Louis retailers establishes his price in St. Louis and so cannot be said to offer discriminating prices. Nor can he be accused of discriminating against Chicago retailers, provided it is accepted that the retailer must consider the freight as a part of the cost of his merchandise. Consequently both Chicago and St. Louis grocers get the goods at the same net price. Yet there are many who

consider the freight allowance as a cut in price. The question is open for debate.

6. *Competitive prices.*—When variation in price goes beyond the allowance for freight and carriage, the jobber certainly abandons a one-price basis for a competitive price and this undoubtedly is open to criticism. If competitive prices are allowed, they should range within narrow limits, as otherwise the salesmen are encouraged to take advantage of one retailer to make up for the low price to another. This system of pricing encourages haggling and is likely to cause ill-will.

Competitive prices are most frequent in foodstuffs and heavy articles where freight charges are highest, while in lines like dry goods or drugs, the one price policy is more often observed. In competing in these lines, the jobber considers all the facts and then determines his policy accordingly. He is a wise merchant who sticks to a one-price policy and does not allow himself to be carried into price-cutting competition. This has probably ruined more good wholesale houses than any other single thing.

7. *Loss leaders.*—The policy of a good many jobbing firms in this country of carrying certain lines of goods as "loss leaders," follows the practice which has been current in retail merchandising for many years. It may be advantageous for the jobber to carry a certain well-known line and sell it to the dealer at a loss to gain prestige in the trade. The idea is that if the dealer will purchase the "loss leader" he will no doubt

include in his order many other items on which the jobber is making a fair profit, and as a result no net loss will be incurred. This policy is questionable from an ethical standpoint as well as from the standpoint of its permanent effect upon the trade. The jobber therefore should consider all conditions which surround his particular field before adopting such a sales policy. Every year finds fewer jobbers following the practice.

8. *Different prices for different classes of customers.*—When the jobber's trade extends beyond the ordinary retailer the difficulty increases. Some jobbers have one price for the regular retail trade; one for chain stores, mail-order houses, department stores and other large retail concerns; another for hotels and institutions; and still another for goods sold to the city, state or Federal governments. The problem is one of the biggest which confronts the jobber today and his policy regarding it must be clearly defined. The jobber's primary function consists in supplying his wares to the retailer only, for resale, at one price to all, except for possible freight allowance to distant points or on bulk articles. The nearer he can keep to his primary function the better for him.

9. *Discount policy.*—A large southern dry-goods jobber remarked recently:

> My success has been largely due to the carefully worked out policies which our firm has in regard to the giving of discounts, refunds for canceled orders and defective goods, as well as to the promptness with which we settle all claims

against the railroad companies in behalf of our dealer customers.

One of the most valuable features of this policy is that it insures each dealer's getting the same treatment. As long as a dealer knows that he gets the same discounts as every other dealer in his territory he is satisfied. But the moment he learns that some competitor gets preferential terms, trouble begins.

10. *Three kinds of discounts.*—Discounts in the jobbing trade are of three kinds: trade discounts, cash discounts and extra or special discounts. The original purpose of the trade-discount system was to make it possible for the wholesaler to quote list prices which would be the same as the retail selling price, and which would provide for the retailer's margin of profit thru the discount. Discounts are used largely in selling commodities where price fluctuations are frequent. Thus an article made to sell for a dollar may be listed at $12 per dozen with a discount of 25 per cent to the trade.

In practice, however, the trade discount varies widely. Wholesale stationers frequently give a series of trade discounts totaling 50 to 75 per cent and do not expect the retailer to get the list price. In many lines, of which dry-goods is an example, no such trade discounts are customary. Wholesale prices are quoted, subject only to cash discounts. The manufacturer or jobber about to start in business can easily find out what is customary in his particular line by applying to the secretary of his trade association.

The tendency at present in many forms of business is toward the elimination of trade discounts and the substitution of wholesale prices.

11. *Cash discount.*—The cash discount was originally given as a premium to induce prompt payment on sales of certain lines in which long credit was given. Thus in the grocery trade it is customary to give a series of discounts with different lines. One large wholesale grocer gives only 30 days' time on staples such as sugar, with one per cent discount for cash in ten days. On goods on which there is a profit, such as canned goods, he gives 60 days' time with two per cent discount for cash in ten days, while on certain private brands which he wishes to push, or on which there is a better margin of profit, he gives four months' time with four per cent discount for cash in ten days.

12. *Extra or special discounts.*—The cash discount is a firmly established custom in most lines of trade and its continuance is certain, tho there have grown up about it many trade abuses. For instance, for many years, retail buyers have made strong drives to obtain extra or special discounts. It has even seemed, at times, that the buyer was purchasing discounts instead of merchandise. The jobber who cuts his prices by giving special discounts must make up the loss in some way. Generally, he does this by increasing his list prices to the "discount buyers" or by giving them merchandise at regular prices which another man would get at job-lot prices.

13. *Extra discounts on large quantity purchases.* —Some buyers demand quantity discounts on large purchases, on the claim of the saving to the jobber in handling the merchandise in such quantities. As a matter of fact, there may conceivably be a saving of one-half to two per cent, but such a discount does not satisfy the big buyer. He wants five to ten per cent. Many progressive concerns refuse to give extra discounts for any quantity. This problem arises especially with the sales to chain and department stores and frequently the jobber feels that he must yield. If he does, he is likely to alienate the small dealer. As the jobber's sales must be made principally to the independent retailer, he is a short-sighted business man who builds his price policy on any basis other than the best interests of the one on whom he must depend for the larger part of his business.

14. *Extra discounts on drop shipments.*—Similar to the quantity discount is the practice of allowing discounts on "drop shipments," that is, on goods shipped direct from the manufacturer to the retailer. The large retailer maintains that such shipments allow a considerable saving to the jobber and that the saving should be divided with the retailer. The manufacturer frequently steps in and demands a higher price from the jobber because he is assuming a part of the jobber's function; but in this the manufacturer is seldom successful. The jobber in such merchandise as heavy hardware, building material and other lines where large shipments are common, frequently yields

to the retailer by giving him an extra discount of five per cent. In this, as in the case of ordinary quantity shipments, it is questionable whether the saving to the jobber is as great as it would seem. Unless the amount of drop-shipment business becomes a considerable part of his total business, he must maintain just the same warehouse facilities as if the goods came to him and were reshipped. Accordingly most jobbers, except those who deal in a few heavy lines, refuse to give special discounts on drop shipments.

15. *Credit policy.*—The question of a uniform credit policy has probably been debated more thoroly by the various wholesale trade associations thruout the country than any other question. Altho there has been progress, there does not seem as yet to be a definite settlement of the question. However, the credit department in merchandising is now receiving the recognition which it deserves. While it is true that the percentage of loss thru bad debts has been on a gradual increase since 1899, it is now (1917) beginning to decline. This is due in part to better business conditions generally during the last two years, but probably in a still greater degree to the careful study which this department of the wholesaler's business is receiving and to progress in standardizing credit policies.

First of all, it is necessary that a jobber have a definite basis upon which he shall extend credit and then a credit policy which will enable the credit manager to stick to this basis. The general practice in the

past among wholesalers has been to perform the function of a commercial banker for his dealer customers and, in his eagerness to get business, he has been encouraging the retailers in many cases to become financially involved. As long as the average dealer knows that he has unlimited credit, he will not be careful in his purchases.

On the other hand, if the jobber is to assume the rôle of commercial banker, he should charge a stipulated fee for the financial service. A discount is given to those who pay cash for their goods and for the same reason it would seem just to charge interest to those who use the money of the jobber overtime. In this, as in many other questions of policy, the jobber will need the cooperation of other jobbers, in order to enforce his policy. Many jobbing trade associations have passed resolutions on this subject, with penalties for those who break the regulations thus established.

16. *Dating of invoices.*—The policy in regard to the dating of invoices is closely connected with the discount and credit policy. For instance, a cotton goods jobber will sell a bill of goods for delivery on the first of September and agree to date the bill for the first of November with a discount of two per cent if the goods are paid for in ten days, that is by the tenth of November. This condition has grown up in certain trades where orders are taken months in advance of both manufacture and delivery. During 1916, with business generally in a highly prosperous condition, and many firms unable to fill all orders obtained, there

came an opportunity for a concerted effort to cut down the term of credit allowed. In many lines, wholesalers were able to reduce the period materially. The policy of restricting credits and cutting down "extra dating" is likely to continue. The jobber who makes the most of this opportunity is wise; for there is no economic reason why the wholesaler should finance the retailer.

17. *Trade acceptances.*—Many wholesalers are making a determined effort to get rid of long credits with the uncertainties of collections, by the substitution of a more general use of the trade acceptance. This movement is fostered by many wholesalers' associations, and the use of such acceptances is favored by the Federal Reserve Board. Member banks are permitted to discount these acceptances at a lower rate than other forms of commercial paper, and generally do so.

The advantage to the wholesaler who establishes greater certainty in his collections by the use of these acceptances is clear. The retailer may be expected to object because this method of handling accounts deprives him of some of the privileges to which he has been accustomed, and which he has often abused in the past. Under the open-credit system he can postpone payment of his bills for a few days without any penalty. If, on the other hand, he indorses a trade acceptance, he is in the same position as if he had given a promissory note for the amount of the invoice. If the acceptance is not paid on the date due, the bank

on which it has been discounted will protest it. This of course will involve some expense to the retailer and will be an injury to his business prestige. At the same time the trade acceptances will put his purchases on a spot cash basis and so enable him to buy to better advantage.[1]

18. *Credit for goods returned.*—The practice on the part of both retailer and consumer of returning goods, whether or not they are defective, is an ever-increasing menace to both jobber and manufacturer. In many cases the goods returned are unfit for resale and the result is that the jobber incurs an entire loss unless he can pass part of the loss along to the manufacturer. Policies in regard to the acceptance of returned goods differ with the various lines and with each different manufacturer. In the grocery line, the jobber in nearly every case accepts the goods returned and credits the account of the dealer without a question as to whether the goods were defective or whether the dealer merely found that he had overpurchased and did not want them.

The only reason that can be assigned for this overliberal policy on the part of most jobbers is the fear of the competition from the other jobbers in their territory. Each jobber seems to think that any disagreement which he may have with his dealer customer gives his competitors an opportunity. Probably the most successful solution to this problem is that of the wholesale grocers in Los Angeles, California, who

[1] For a fuller discussion of trade acceptances see Modern Business Texts on "Credit and the Credit Man," page 36, and "Corporation Finance," chapter on Trade Credit and Bank Loans, page 78.

thru their local trade association placed an advertisement in a Los Angeles trade paper. It was headed as follows: "Manufacturers are becoming stricter every year in the matter of accepting returned goods. It is therefore necessary for the wholesale grocer to exercise care in the same respect. In order that our friends in the trade may understand the situation and be able to protect themselves, we deem it both just to them and to ourselves to record the following." The advertisement then gives a clear statement of policy toward the return of goods, describes definitely all restrictions of such privilege, and sets forth plainly and frankly the requirements which must be met by all dealers who wish to make returns. Thus a uniform policy is established and the retailer knows exactly how to deal with the jobbers in his territory.

19. *Other business policies.*—The jobber must have well-defined policies in regard to advertising, dealer cooperation, manufacturing, semi-jobbing and the like. These questions can best be treated in connection with succeeding chapters on the organization of corresponding departments.

REVIEW

Why do you consider it desirable to determine trade policies as definitely as possible before beginning business?

What factors determine the price policy of a jobbing house?

Under what circumstances would you give special discounts?

What are discounts on drop shipments?

Why should a jobber scrupulously live up to his trade policies?

CHAPTER III

ORGANIZING AND FINANCING THE BUSINESS

1. *Early forms of organization.*—An investigation into the history of many prominent jobbing houses shows that the majority, as one jobber remarked, "'just growed,' like Topsy." This same man adds "We are more or less a family affair, or a two-family affair. While we settle most questions by consultation, yet it is not always possible to arrange a conference and each one of us, therefore, is called upon to render independent decisions. In such cases, we find our respective authorities frequently overlap and confusion results."

As a matter of fact, the market for almost all kinds of merchandise has been so great in the past that wholesalers have been far more concerned with securing goods and filling orders than with the organization of their business machinery. The jobber has been in such close personal touch with the trade and with every department of his organization that he could succeed with it as a "one-man" type of business. Considering the enormous volume of business transacted and the small percentage of expense, his profits were so large in proportion to his expenses that he did not need to watch each detail of his organization for opportunities to increase its efficiency.

In recent years conditions have changed. In many old firms, the partners are no longer able to stand the strain of long hours devoted to the details of the business. Expenses of doing business have gradually increased and the margin of profit has grown less. The jobber has lost considerable business thru the development of chain stores and mail-order houses which buy direct from the manufacturer. He has been put on the defensive to demonstrate that his service to the manufacturer and retailer is necessary and economical.

2. *Military type of organization.*—During these changes it was necessary for the jobber to adapt himself to conditions or fall behind in the procession. He was forced to add many new departments to his business, and as he did so, his organization outgrew the one-man type and became departmental. The head of each department of the business assumed control of all work performed for his department, regardless of its character. This is termed the "military" type of organization and was employed particularly in large concerns. Marshall Field and Company, in its wholesale department, was one of the first concerns to organize their business on departmental lines. Each of the forty-five departments has its complete organization—executive, buying, selling, stockkeeping and accounting—so that it exercises all the functions of an independent mercantile house, specialized to the extreme. This gives each department

head, or buyer, wide power. In addition, a central organization supervises the whole business.

In small concerns where such a scheme would mean a great duplication of sales and clerical force, a plan of organization has grown up which is a compromise between the one-man type and the departmental type. Each buyer has a certain amount of supervision over the various salesmen who sell his lines, and likewise over the accounting, receiving and shipping of these goods. The organization is similar in operation to that of Marshall Field and Company, but it cannot be so free from friction because the authority of different department heads is likely to overlap.

3. *Functional type of organization.*—The outgrowth of this is the functional organization which retains the advantages without the disadvantages of the departmental system. Buyers generally are not good sales managers, for buying and selling are opposite types of endeavor.

Within recent years, therefore, nearly all jobbing concerns have relieved buyers of the supervision of the salesmen by the appointing of sales managers. Likewise, some officer has taken charge of the office force and the warehouse. More recently, in line with the developments in department stores, the office of merchandise manager, in charge of the buying and stockkeeping, has been created. Gradually the change has been made to functional organization and the business has been divided into the four natural

functions—financing, merchandising, selling and operating, the last including the office and the warehouse force. In a recent bulletin of the National Wholesale Dry Goods Association, shown on the insert following page 39 the functions are apportioned so that the president has charge of finances, the vice-president of buying, the secretary of selling and the treasurer of the office and warehouse. Since that distribution of authority seems in harmony with the best practice of the day, the present discussion of functional organization is built on that basis. The organization which results is most easily understood from the chart facing page 40.

4. *Variation in detail.*—A study of the organization of wholesale houses shows that while there are certain functions to be performed everywhere, the work is apportioned differently in different houses. It is common to combine the work of the merchandise manager with that of the sales manager. The president is frequently the treasurer, while the office and warehouse are supervised by an employe. The same is true of the subdivisions of each function. In some houses, the traffic work is handled by the shipping clerk, while in another the traffic manager may be one of the highest paid men in the concern. These are cases of adjustment made to suit the needs and personnel of the individual house. The functions remain the same in each business regardless of their distribution among officers and employes. For the purpose of this discussion, therefore, it is best to outline a com-

plete functional organization based on the best present-day practice. At the same time, whenever conditions permit, it is highly desirable to follow out a complete functional scheme of organization, for a confusion of functions always brings opportunity for misunderstanding and a weakening of supervision.

5. *Financial division.*—The first function of the financial division is to provide the funds with which the business is to be conducted. To accomplish this purpose, the financial manager, who is generally the president, has charge of the arrangements for raising capital for the business when it is organized. He establishes banking relations, attends to the investment of surplus or inactive funds, and has supervision of credits and collections. In conjunction with the other members of the executive committee, if the business is directed by an executive committee, he arranges the budget for each department and the merchandise plan for the whole business.

6. *Budget.*—From an experience extending over a period of years, the president can estimate pretty closely the different items in the budget and so judge the amount of money required to conduct the business from month to month. Great care is exercised to see that the experience of the past is representative and that the future is carefully estimated. Business conditions during 1915 and 1916 were so abnormal as to be of little value as a basis for judging the future. However, by averaging past budgets over a period of years, allowing for any unusual conditions,

THE NATIONAL WHOLESALE DRY GOODS ASSOCIATION

505 ARCH STREET, PHILADELPHIA, PA.

COST OF DOING BUSINESS—Percentage of expense to the total sales on items making up the four great divisions of the cost of doing business, viz: Office, Merchandise, Selling and Operating Expenses.

Confidential information for use of members only. *January 20, 1916.*

	Figures of House No. 1	Figures of House No. 2	Figures of House No. 3	Figures of House No. 4	Figures of House No. 5	Figures of House No. 6	Figures of House No. 7	Figures of House No. 8	Figures of House No. 9	Figures of House No. 10	Figures of House No. 11	Figures of House No. 12	Figures of House No. 13	Figures of House No. 14	Figures of House No. 15	Figures of House No. 16
OFFICE EXPENSE																
Under OFFICE EXPENSE would come directly the Finance and Credit Expenses, which are generally under the management of the President and his salary would be chargeable to this branch of the business. This is the banking function of the operations.																
Auditing and President	.39	.666	.36	.40	1.17	.227	.65	.71	.015	.677	1.038	.456	.72	—	.30	1.00
Credit Department Wage	.21	.157	.22	.30		.335	.14				.270	.379		—	.18	.08
Collection Department	.23	.071	.17	.20	.22		.27			†	.269		.39		.15	.04
Credit Reports	.03		.05	.10		.039	.08	.002			.065	.052	.16	—	.02	.04
	.86	.894	.80	1.00	1.39	.601	1.14	.712	.015	.677	1.642	.887	.88	.39	.65	1.16
MERCHANDISE EXPENSE																
MERCHANDISE EXPENSE would be directly under the management of the Vice President, his salary being chargeable to this division.																
New York Office Expense	.09	.356	.10	.12	.12	.224	.15	.160		—	.192	.217	.06	.06	.12	.56
Buyers' New York Expense	.12		.13	.11	.13	.183	.11	.158		.01	.095	.111	.15	.09	.11	
V. P. (Merchandise Manager) and Assistant	.16	.20	.17	.27	—	—	.19	.12			.490	—	3.95	.27	.13	.43
All Dept. Managers, Dept. & Special Dept. Salesmen's Wage	.91	1.516	1.60	2.37	.23	3.394	.92	1.09		.586	.300	2.196	1.82	.45	.48	1.60
Departments' Wage Accounts	.79	.686			1.42		1.21			1.72	.635				.93	.16
	2.10	2.758	2.00	2.87	1.90	3.801	2.58	1.828		2.346	1.712	2.524	2.425	.87	1.77	2.74
SELLING EXPENSE																
SALES EXPENSE would be directly under the management of the Secretary and his salary would be chargeable to this branch.																
Advertising	.03	.114	.02	.015	.22	—	.27	.289		.04	.05	.116	.044	.07	.018	.05
R. R. Fares,—Customers'	.15	—	.30	.012	.09	—	.27	.007		.11	.056		.22	—	—	—
Entertaining Customers	.02	—	.30	.004	.05	—	.01	.006			—		.008	—	.012	.015
Traveling Expense, Road and Special Salesmen	2.415	2.017	1.20	.220	1.57	2.163	1.52	3.65	1.722	4.13	1.966	3.763	2.03	1.50	1.73	1.90
Road Salesmen, Commission & Wage	2.426	1.590	1.60	.169	2.30	1.805	2.39		3.238		2.819		2.146	1.70	1.22	1.90
Secretary (Sales Manager) and Assistant	.09	.098	.18	.015	.13		.15	—			.390	§	.23	.12	.07	.16
General Salesmen & House Salesmen Wage	.70	.195	.20	.018	.65	.361	.26	.787		.07	See Note ‡		.00 .08	1.27	—	.40
Sample Room Wage and Supplies	.13	.161	.10	.011	.07	.058	.08	.316		.023	.09	.198	.09	.06	.03	.05
	5.961	4.205	3.90	.012	5.08	4.387	4.95	5.065	4.960	4.373	.189	4.077	4.848	4.72	3.080	4.475
				.476							5.860					

OPERATING EXPENSE The OPERATING EXPENSE would be directly under the management of the Treasurer, and his salary would be chargeable to this branch.																
Charity	.02	.029	.01	.02	.05	.015	.04	.043	.633	.03	.02	.019	.009	—	.02	.03
Taxes	.24	.450	.23	.20	.35	.409	.34	.45	.076	.44	.452	.347	.37	.24	.13	.40
Drayage	.17	.335	.41	.45	.13	.711	.21	.27	.311	.266	.293	.198	.30	.12	.56	.13
Insurance	Credit	.129	.10	.10	.10	.281	.26	.23	.103	Credit	.365	.187	.17	.08	.16	.10
Rent	.66	.953	1.66	.67	.73	1.133	.56	See Note	.405	.757	.412	1.238	.48	.61	.57	.90
Packing Room	.50	.534	.78	.87	.28	—	.76	.173	—	.578	Under Portere	.189	.876	—	.84	.90
Operating Office (Order Clerk, Correspondence Claims, Etc.)	.08	.076	.15	.11	.33	.927	.46	.904	—	.165	.12	.414	.30	.56	.30	.20
Profit & Loss Dept., Wage & Supplies	.04	.057	.13	.19	—	—	—	—	3.362		.159	.081	.00	—	—	.20
Shipping & Receiving Office, Wage & Supplies	.19	.181	.10	.12	.31	.554	.41	.33	See Note .567	.12	.208	.723	.114	.71		.15
Light, Heat and Power	.11	.264	.15	.18	.10	.183	.12	.065	.131	.162	.09	.126	.07	.04		.07
General Expense (Night Watchman; Street Men; Porters; Stenographers; Telephone Operator; Elevator Man)	.46	.202	.15	.23	.57		.52	2.04	.437	.23	.425	1.239	.52	.15		1.00
Stamps	.10	.134	.19	.13	.11		.15	.29		.167	.183	.201	.11	—	.089	.15
Stationery & Supplies	.63	.095	.10	.07	.06	1.139	.15	—	.316	.068	.089	.209	.07	.27	.083	.20
Telephones and Telegrams	.34	.035	.04	.05	.08		.03	.057		.010	.033	.139	.01	.03	—	.10
Treasurer (General Manager) and Assistant	.08	.20	.10	.13	.22		.19		.804	—			.11	.34	—	.20
	3.62	3.724	4.30	3.55	3.45	5.652	4.23	4.852	6.605	2.993	2.849	5.340	3.628	2.95	2.552	4.73
TO BALANCE OPERATIONS																
Losses and Bad Debts	.75	.753	.40	.50	.66	.190	.87	.82		.85	1.578	1.583	.77	—	1.11	1.00
Depreciation	.08	.122		.20	.08	.035	—	.155	.417		.595	.457	.00	—	.09	.30
Interest on Money Borrowed in Excess of Interest Received	Credit	.833	.30	.20	.27	—	.76	1.38	.163	Credit	1.607	.242	.41	.80	1.21	1.00
Interest at 5 per cent. on the total capital and surplus employed		1.454	2.00		1.90	—	2.00	1.60	1.973	2.312	1.310	1.871	1.09	2.00	1.62	1.40
	.83	3.162	2.70	.90	2.91	.225	3.63	3.955	2.553	3.162	5.090	4.153	2.27	2.80	3.96	3.70
TOTAL OVERHEAD EXPENSE	13.371	14.743	13.70	13.08	14.73	14.666	16.53	16.402	14.133	13.551	17.153	17.021	14.05	11.73	12.012	16.806
Net Revenue from Cash Discounts	1.50	1.566	—	1.70	2.00	1.70	1.95	1.56		2.13	1.283	1.338	1.23	2.09	1.39	2.36
Discounts Given Customers	1.01	1.40	—	1.07	.79	1.01	1.03	1.53		1.43	.733	1.031	1.34	1.52	1.19	1.30

NOTES

* Houses No. 4 and No. 11 add prepaid freight and express on return goods.
House No. 8 says: "We own our own building"—no rent is charged to expense account.
House No. 9 includes all department wages in item of 3.362%.
House No. 11 includes wage of General Salesmen and House Salesmen under Department Wage Account.
† House No. 10 includes salaries of the firm.
§ Includes House Salesmen's wage in Dept. Salesmen's wage item 2.196%.
‡ Includes in Traveling Expense, Road and Special Salesmen item.
All percentages are, of course, figured on the selling price and not on the cost.
Average, January 1915 Convention, 14.67%.
Average January 1916 Convention, 14.604%.

considering known factors of the future and allowing a margin of safety, a proper basis for building a budget can be reached. The following budget for a wholesale dry-goods concern is based on an average of ten years rather than for any individual year.

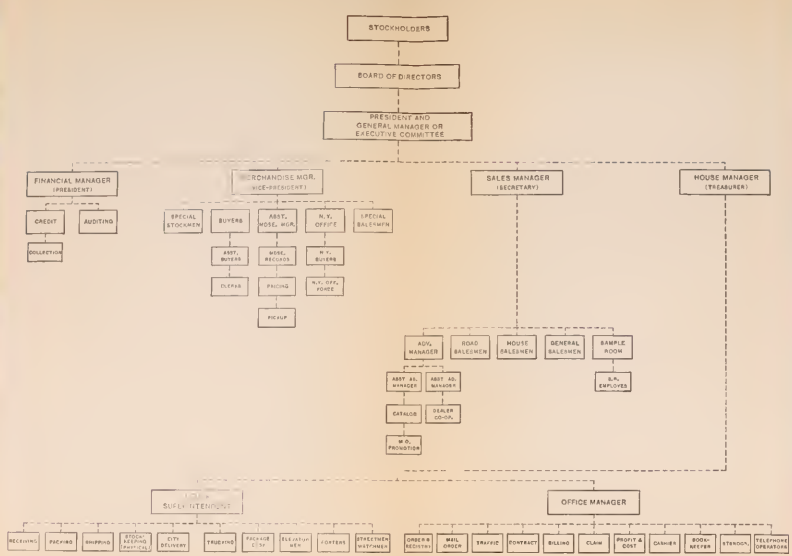
PREARRANGED FINANCE, MERCHANDISE, SALES AND OPERATING BUDGET,

COMPILED BY WILLIS P. MUNGER OF THE BURNHAM-MUNGER-ROOT DRY-GOODS COMPANY OF KANSAS CITY, MISSOURI

		Percentage of Gross Sales
Gross Sales	$7,500,000	100.
Cost of Merchandise, Freight Added	6,112,500	81.5
GROSS INCOME		
Revenue by Profits on Sales of Merchandise	1,256,250	16.75
Net Revenue from Cash Discounts Taken	131,250	1.75
Total	1,387,500	18.50
DEDUCTIONS FROM GROSS INCOME		
Office Expense	60,000	.8
Merchandise Expense	150,000	2.
Sales Expense	300,000	4.
Operating Expense	240,000	3.2
Total Overhead Expense	750,000	10.
Discounts Given	75,000	1.
Losses, Bad Debts and Depreciation	63,750	.85
Net Interest Paid	48,750	.65
Interest at 5% on Capital Stock	75,000	1.
Total Expense (Fixed)	262,500	3.5
SUMMARY		
Gross Income	1,387,500	18.5
Gross Deductions	1,012,500	13.5
Net Earning Over 5% on Capital Stock	375,000	5.
Interest at 5% on Capital Stock	75,000	1.
Net Earning over 5% on Capital Stock	375,000	5.
Total Surplus	450,000	6.

Note:

Total Surplus is 30% of Capital Stock Investment of	$1,500,000
Average Merchandise Investment	1,500,000
Average Money Borrowed	1,175,000
Interest on Average Money Borrowed at 4%	47,000


WHOLESALE ORGANIZATION
STOCKHOLDERS
BOARD OF DIRECTORS
PRESIDENT AND GENERAL MANAGER OR EXECUTIVE COMMITTEE
FINANCIAL MANAGER (PRESIDENT)
CREDIT
COLLECTION
AUDITING
MERCHANDISE MGR. (VICE-PRESIDENT)
SPECIAL STOCKMEN
BUYERS
ASST. BUYERS
CLERKS
ASST. MDSE. MGR.
MDSE. RECORDS
PRICING
PICKUP
N.Y. OFFICE
N.Y. BUYERS
N.Y. OFFICE FORCE
SPECIAL SALESMEN
SALES MANAGER (SECRETARY)
ADV. MANAGER
ASST. AD. MANAGER
CATALOG
MD. PROMOTION
ROAD SALESMEN
ASST. AD. MANAGER
DEALER CO-OP.
HOUSE SALESMEN
GENERAL SALESMEN
SAMPLE ROOM
S.R. EMPLOYES
HOUSE MANAGER (TREASURER)
SUPERINTENDENT
RECEIVING
PACKING
SHIPPING
STOCK-KEEPING (PHYSICAL)
CITY DELIVERY
TRUCKING
PACKAGE CLSR.
ELEVATOR MEN
PORTERS
STREETMEN WATCHMEN
OFFICE MANAGER
ORDER & REGISTRY
MAIL ORDER
TRAFFIC
CONTRACT
BILLING
CLAIM
PROFIT & COST
CASHIER
BOOK-KEEPER
STENOGR.
TELEPHONE OPERATORS

7. *Checking the budget.*—One of the functions of the president as financial manager is to check the actual operating results of the business, month by month, against the financial budget. He naturally begins with his own department and compares actual collections against the estimate in the budget. It is frequently necessary to be lenient in credits, for instance, in the wheat belt, where a bad crop season may occur, tho good crops seemed assured. Therefore, it is necessary to watch collections closely and to revise the budget frequently in order that it may be of value.

In the case of the merchandise section of the budget, it is not difficult to check purchases month by month against sales and stocks on hand. But to be sure that the budget for merchandise is reasonable and to watch it from month to month to see that the buying organization is following, is a task of considerable difficulty. Since the greatest loss comes from a lack of attention to a merchandise plan, the merchandise commitments should be regulated month by month in advance. Sometimes the buyer must be allowed to make heavy purchases against a rising market, and for this the financial manager must provide funds. This is particularly true in such lines as groceries, where the jobber's profit comes largely from market operations, that is, from buying in the most favorable market. But even in such lines, many houses will testify it is possible to follow a merchandising plan.

The merchandise section of the budget must be

divided to show the exact amount of funds each department will require month by month to meet expenses and purchases. This is checked by the merchandise department as the invoices from manufacturers come in, and shows the amount of goods that remain undelivered. If a manufacturer is delivering goods at other than contract dates, this fact is noted, in order that deliveries and invoices may tally with the budget and the financial plans.

The sales budget is easily checked from month to month, for many of its items, such as salaries to salesmen, can be estimated accurately in advance. If the salesmen are paid on a commission basis, there will be no special need of checking. The main problem is to check the advertising budget regularly in order to insure that expenditures are as planned. A check must be had on expenditures for dealer aids and for departmental expenses in general.

Finally, the operating section of the budget must be checked. Here conditions are fairly stable and, by following his past experience and that of other jobbers, the financial manager need have no difficulty in preparing his plans. The statement of the National Wholesale Dry Goods Association on the "Cost of Doing Business" given opposite page 38, furnishes the sort of data which the financial manager will find of much value.

8. *Auditing the various reports.*—A statement of the actual results of the operation of the business as

required in checking the budget and in carrying on the work of the financial department in general is usually supplied by the auditor, who is a member of the financial manager's force. These reports show sales in comparison with previous years, purchases, collections, expenses and various combinations of these factors in order to give a better working knowledge of present conditions and future tendencies.

In one well-organized drygoods house the following reports are made, and the system is representative of good practice.

(1) Comparative daily statement of sales and profits by departments and corresponding figures for same day of previous year.

(2) Weekly summary of the foregoing with added figures showing totals so far during month as compared with previous year, and similar figures for goods returned.

(3) Monthly report of cashier to president showing exact expenditures for the month, for the year to date and the average expense per month for the operation of the financial division. This includes salaries, adjusting expenses, collection expenses, discount received and given and interest paid and collected. Against each average there is set a "bogey" or desired percentage of expense so that any variation is readily noted.

(4) Monthly report of the cashier to the vice-president, giving a summary of all expenses incurred in the merchandising division.

(5) Monthly report of the cashier to the secretary giving a summary of all expenses incurred by the sales division.

(6) Monthly report of the cashier to the treasurer giving a summary of the operating expenses.

(7) Monthly summary of reports Nos. 3, 4, 5 and 6, prepared by the auditor for the president. In addition, the auditor's report includes a complete financial statement, showing quick assets and liabilities, receipts and disbursements, and estimated collections and payments.

(8) Merchandise operating statement for the month, and monthly for the year to date, by departments. This is a most complete report, and shows every phase of the conduct of each department. The main items are purchases, classified as received, undelivered and on contract for next year; freight costs: sales; returns; profit above freight; average stock investment and average turnover of stock, first and last of month. Against each figure is set a "bogey" or desired result and all figures are carried both for the month and the year to date.

In addition, there is a continual checking of records thru the house. For instance, all purchasing and selling invoices are checked on a non-listing adding machine. All cash expenditures, entries in the cash books, journals, general ledger and monthly trial balances are also checked over by the auditor and his assistants. In addition to this, the whole business should be audited periodically by a public accountant.

9. *Credit department.*—The credit manager and his assistants divide the jobber's territory into sections and each man handles the accounts in his own section. Information on credit risks is gathered as described in the Modern Business Text on "Credit and the Credit Man." This information is entered on cards which are filed geographically. A clerk is employed to keep these files up to date and to type inquiries for trade experiences from other jobbers and from mercantile agencies. The orders from salesmen after they have been checked by the sales manager and the departments concerned go to the credit man in charge of the section in which the customer is located. He investigates the applicant, and if his credit standing is satisfactory, the credit is authorized.

10. *Collecting past-due accounts.*—Each credit man has charge of the collection of past-due accounts in his own territory. Whenever statements are sent to customers, copies go to the credit department. These statements are distributed by the credit manager to his assistants according to territory. Previous correspondence on each account is attached to the customer's statement and is then filed in a tickler file under various dates, for attention as circumstances require. Each credit man checks over his accounts from day to day and, before following up any account, he has it rechecked against the ledgers and the incoming remittance mail.

The greater part of the collection work is done by letters composing a form-paragraph system. The

credit man marks on each customer's collection record the numbers of the paragraphs in his correspondence manual to be used, and his stenographer fills in the details of the amounts and other data from the collection records. Of course some accounts require personally dictated letters, and others need the services of traveling adjusters. Carbon copies of all important credit letters should be sent to the salesman handling each territory.

The problem of adjusting doubtful accounts is a big one, for it is not easy to collect the accounts and retain the good-will of the retailer. A substantial customer and a loyal trade friend is frequently made of the merchant who is in trouble and sees only bankruptcy ahead, by helping him to build up his business, and thus enabling him to pay his bills. This is especially true in cases where jobbers cooperate with their customers. It is equally necessary that jobbers work in harmony with one another; for if one jobber, at the first sign of trouble, throws the retailer into bankruptcy, the others can do nothing to save him. Some jobbing houses have developed such a reputation in the trade for handling doubtful accounts that when signs of difficulty appear, other jobbers come in and readily agree to the suggested basis of settlement.

REVIEW

What are the merits of the military type of organization?

In what respects is the functional type of organization superior to the military?

Under what circumstances would you prefer a committee system to a system of individual heads of departments?

Who in general should be in charge of the financial division of a business?

What statistics are needed to make a budget? What checks are desirable on the accuracy of the budget?

What regular reports should the head of a jobbing house receive?

CHAPTER IV

MERCHANDISING THE BUSINESS

1. *Function of a merchandising division.*—The work of the buyers in a jobbing house seems easy. It looks almost like a clerical job; but it is not. The merchandise division is the heart of the business, and in every jobbing house the purchase of the goods is considered the most important task of all.

The function of the merchandising organization is to provide such merchandise as is in keeping with the policies of the business, at a price such that the sales organization can sell the goods at a profit. Quantities must be regulated to meet all demands without unnecessary stock at any time but in such a way as to leave stocks clean at the season's end. In order to fulfil his function, the merchandise manager must be a real merchant himself—not merely a good buyer; a constructive worker and not merely an opportunist. He must organize a staff about himself to keep track of every factor in the business which affects buying.

The division of the merchandising work among the various members of the force will be readily noted from the organization chart facing page 40.

2. *Merchandise office.*—The merchandising centers in the merchandise manager's office, tho in large

concerns the immediate supervision of the office itself is given to the assistant merchandise manager. The function of the merchandise office is to keep all records necessary to the proper conduct of the merchandising division. These include records of stock limits, turnovers and mark-ups for each department, together with the buying-control system; comparative daily reports of purchases, receipts, stock on hand and unfilled orders on contract; statistics on market conditions; tabulations of complaints, cancellations and returns; and various other data which may be required in each line and in each individual concern. The office force includes a sufficient clerical staff to keep these records up to the minute, for material of this sort is worse than useless if it is not accurate at the moment it is required. It is here that much of the poor buying in the mismanaged wholesale house originates. The buyer and the merchandise manager are misled by figures which are either antiquated or inaccurate.

3. *Buying control.*—The merchandise section of the financial budget has already been discussed. This section is the result of the operation of a buying-control system under the merchandise division. The purpose of the buying-control system is to determine the amount of capital to be set aside for the use of each department and to regulate its use from month to month more or less automatically so as to balance the amount of staple merchandise handled on a small profit against the amount of profitable merchandise.

Such a system varies somewhat with different lines but the principles remain the same. One of the greatest faults of the average buyer comes as a result of his desire for volume regardless of profits.

At the beginning of the fiscal year the merchandise manager checks up his business of the preceding year and estimates the amount of business he can do each month in each department, as well as the number of times he can turn the stock. On this basis an allotment of money is made to each department which is apportioned to the months of the year. The department managers are instructed accordingly. As orders go thru for purchases, they are checked by the merchandise office and the amounts subtracted from the current buying allotment. When the buyer has used up his allotment for any given month, his orders will not be countersigned for further purchases unless he gets a special appropriation. However, if the sales in a line increase over the quota set by, say, $10,000, the excess amount is automatically allowed as a special allotment or it may be added to the next month's allotment. On the other hand, if the buyer does not use up his allotment during any given month it may be added to the following month. Such a condition would indicate that stocks were becoming depleted by heavy sales against small purchases, and therefore the added amount would serve to bring the stocks back to normal. If sales fall below the quota, the buying allotment may be correspondingly cut to prevent overstocking. Interest is generally charged

the department on all funds above the regular allotment. But, at the same time, it must be remembered that such interest charge in the final accounting is net profit on the year's operation. For instance, if a department carries $200,000 more average stock than its allotment and interest on this is charged at five per cent, this means $10,000 net profit above the regular trading profit of the department.

The automatic buying-control system has been employed for some years in department stores, and works well there. In jobbing houses conditions are somewhat different. In many lines the market fluctuations are so radical and the normal jobbing profit is so small that the main source of profit is in market operations. The shrewd jobber makes contracts for his merchandise for months, or even a year in advance, when he feels certain of a rising market. Where the market promises to fall, he buys from day to day. Therefore, the jobber's buyer must have considerable latitude and for this reason many concerns object to the buying-control system. On the other hand, the automatic control actually does what the term indicates. It gives the merchandise manager complete control over purchases of merchandise so as to encourage making the quota of sales and turnovers in each line with a minimum of stock. The buyer is always free to appeal for a special appropriation to take advantage of market advances and as the merchandiser is just as anxious as the buyer to get any such advantages, these requests are usually granted. The sys-

tem is coming more rapidly into use, and if it can be successful in the largest grocery-jobbing concerns, as has been proved in many instances, there is no reason why it should not be applicable in every jobbing line.

4. *Indicating slow-selling lines.*—As an incidental result of the automatic-buying control it is possible to show up the slow-selling lines. The system is not in itself adequate for the purpose. One dry-goods jobbing house has a second check which starts with the receiving room. The tags on cases of goods, showing the lot number of the goods, are made in different colors to indicate the month of the year in which the merchandise was received. When the stock clerk selects merchandise to fill orders, he is instructed to take always the oldest on hand. This is made easy for him by the color system.

At the beginning of each month the merchandiser and the buyer check over the stock and compare quantities with the maximum and minimum stock limits. The merchandiser readily sees in what lines there is an overstock and what styles or sizes are the slow sellers. The matter is then taken up with the sales manager and plans are made to move the slow stock or the surplus stock by some special sales effort.

5. *Selection of buyers.*—One of the foremost tasks of the merchandise manager is the selection of buyers. The final decision on the employment of each buyer generally rests with the executive committee if there is one, or with the president, because the success of the business depends largely upon the ability

of each buyer. In most concerns, there is a buyer for each principal line. Each man has authority within the limitations of his buying allotments in the conduct of his work, because the details of a jobbing business are so numerous and varied that the buyer or department manager must settle most questions without consultation with the officers.

Much of the slow selling difficulty can be prevented by organizing a job department and by penalizing each buyer for merchandise carried after a certain period. The merchandise is taken away from the department at a 50 per cent reduction and given to the job department at the reduced price for resale.

6. *Essential qualifications of the buyer.*—The successful buyer has, of course, the general traits of character which make success in any form of endeavor. In addition, he must have a natural capacity for detail and for study. He is an expert on the kinds of goods which he buys and, undoubtedly, he has to know more about them than anyone else who handles them except the manufacturer. He makes a study of all the conditions surrounding the production of the raw materials and the methods of manufacture used in changing this raw material into the finished product offered for his inspection and purchase. In gaining this knowledge, he studies the methods of the various producers and manufacturers, and gathers useful information as to what he may expect from each one and from his goods.

In short, it is necessary for the buyer to know his

line, the buying market and the buying methods, what goods he has on hand from day to day and how these goods are moving.

7. *The buying market.*—When a buyer enters the market he asks himself these questions: Who are the manufacturers of the goods that I want to buy? How far can I rely on each of them? Where can I secure the highest qualities of goods? Where can I find the cheap lines? Who can be depended on for prompt deliveries? Who can best be trusted to fill emergency orders? What manufacturers are successfully advertising their products? Which ones are actively cooperating with the retailer? What attitude shall I adopt toward new lines? Which manufacturers are going to give me the heartiest cooperation? In other words, he makes a complete analysis of all the sources of supply.

In most manufactured lines, there are centers where the majority of the manufacturers are represented. At certain seasons, depending on the nature of the merchandise to be purchased, the buyers visit the various centers, look at new lines, study the market generally and make their purchases.

8. *Buying methods.*—Altho some buyers visit the markets, even those in foreign countries, a large percentage of the buying is done at home from brokers and traveling salesmen. It is always to the advantage of the buyer to give each salesman a courteous hearing. A good salesman frequently has information that might be helpful to the buyer. Again,

when the salesman has anything of particular interest or special value to offer, he naturally turns toward the men who have treated him well. The buyer may drive a hard bargain with the salesman but so long as the buyer is fair, he will find that this fairness has a material value, especially in assuring him of the cooperation of the salesman in selecting most desirable styles, securing rush deliveries and in getting personal interest and attention.

A question which frequently confronts the buyer is whether to distribute his purchases among many different concerns or confine them to a few. As a rule, it has been found that by concentrating them so as to make the amount of business given to each manufacturer worthy of special attention, better relations are established with the manufacturers. This should not prevent the buyer from keeping in constant touch with the prices of competing salesmen, for sometimes salesmen get their highest prices from their closest friends, much as that is to be regretted.

The question of how far to go with advertised brands and how far with private brands is usually one which is predetermined for the buyer or whoever is responsible for the policies of the house. The same is true of guarantees as to products, net weights and the like.

In order to specify quantity and delivery dates intelligently, the buyer must know all the facts concerning the stock on hand. Therefore, the stock-records for the goods which he buys are placed directly un-

der his control. In some cases the buyer, and in others the merchandise manager, keeps a record of each manufacturer's goods to ascertain whether it pays to deal with that manufacturer. Such a record shows how the goods have moved, the satisfaction they have given and the profit on handling them. Of course, each buyer has also a complete record of the operation of his department. Modern merchants realize the wisdom of giving each buyer all the figures indicative of the success of each buyer's work.

9. *Authority of the buyer.*—As a rule, the buyer relies entirely on his own judgment in his purchasing, consulting the merchandise manager only when unusual circumstances arise or when he wishes to venture outside the ordinary scope of his authority. If he gets into trouble in handling a line he will consult the merchandiser, just as he does when he sees a market opportunity for which he needs an extra allotment of funds. Most merchandise managers will back their buyers in any transaction within reason for any amount which they may consider necessary for properly conducting their respective departments.

10. *Discounts.*—The subject of discounts is one to which the buyer should give careful study. While it is always an advantage to secure as large a discount as possible, it behooves the buyer to remember that the appeal should not be made until after all questions of quality, price, delivery dates and the like have been agreed upon. Yet it must not be forgotten that the cash discount, taken frequently, almost

equals the total net profit. In the wholesale dry-goods business, the average discount received is 1¾ per cent while many concerns are content with 2½ per cent net profit. Others obtain even less. Therefore, a serious responsibility rests with the buyer to obtain as large a cash discount as is consistent with the other factors of buying.

11. *Pricing.*—The job of fixing the sales prices falls to the buyer. He goes over the price book of staple lines from day to day and revises the list prices as conditions require. In the case of special purchases, he puts the list price or mark-up percentage on each invoice as it is received, and the receiving department tags it accordingly. The profit and cost department should exercise some authority in connection with pricing along with the merchandising plan. If the desired mark-up is not being maintained, it is the function of this department to call attention to the fact.

In many lines, the general price level is determined by market quotations and in all cases is fairly well regulated by the forces of competition. If the price on a particular line is too high, the salesmen will not try to sell it. After all, merchandise is worth only what it will bring, and therefore it is priced largely according to competition and market conditions.

The question is sometimes raised whether the jobber is entitled to take advantage of the opportunity to mark up merchandise which he has bought in a favorable market. During 1916, the price of linens

advanced rapidly due to conditions in Europe. Some foresighted jobbers stocked heavily during 1915 so that linens which cost them seventy-five cents a yard were worth double that and could not be replaced for less. Such jobbers made a handsome profit by marking up their prices from week to week to agree with the market quotations, and they were entirely justified in doing so. Upon the settlement of the European war, prices of linens will doubtless fall, and many a jobber is likely to be caught with linens that cost him a dollar and a half a yard and which will be worth only a dollar. In that case, competition will force the jobbers to cut their prices and take their losses, because every merchant knows that on a declining market the sooner the losses are taken the less they will be. Therefore prices must be revised from time to time to agree with the market and the competition regardless of whether the revisions will mean gains or losses.

12. *Branch buying office.*—Many large wholesale houses maintain branch buying offices in each buying center. For instance, every large dry-goods jobber maintains a branch office in New York City. The office force of one of these branches usually consists of a head buyer, or manager, one or more local buyers, clerks and stenographers, an office boy and telephone operator. In most cases, there is a stock room attached to the office for the temporary storage of goods. As a rule, the buyers from this office make purchases only when directed to do so by the main

office. However, the office serves as an information bureau at all times, since its men watch market developments, investigate bargains and job lots, and size up new goods which appear on the market.

This office also serves as headquarters for buyers from the home office when they are in the city. In such cases, the branch manager receives a statement as to the lines, quantities and price ranges for each buyer on his trip, and on this basis the branch manager becomes temporarily the merchandise manager in charge of those buyers with power to authorize their purchases. He handles their mail, both incoming and outgoing, and attends to all detail work for them during the period of their stay. The branch office frequently sees to the assembling and packing of small purchases, as well as the routing and shipment of all purchases from that center.

13. *Supervision of stockkeeping.*—It is a much debated question whether stockkeeping should be a function of the merchandising or of the house manager. The purpose of stockkeeping is to keep track of the merchandise in the house so that orders from customers may be filled promptly from fresh stocks. The merchandise manager is responsible for having stocks on hand and, therefore, it seems logical that he should be intrusted with the keeping of them. Otherwise, he may throw on another department the responsibility for shortages or surplus of stock due to errors in keeping stock records. In department stores, which are in many ways comparable to

jobbing houses, the supervision of stock rooms is delegated to the merchandising manager; this practice is growing rapidly in wholesale concerns. Each buyer supervises his own stock, under the direction of the merchandise manager. However, the house manager or superintendent inspects and regulates the physical conditions of the stock rooms and the methods of storage.

14. *Necessity for careful stockkeeping.*—It is obvious that stocks must be kept scientifically. Merchandise on the shelves, like money in the vaults, should be protected; in fact it must be kept even more carefully, for stock nearly always depreciates with age. Therefore, the merchandise manager must guard his investments in merchandise by making careful and frequent inventories of his stock.

To conduct his department successfully, he needs an accurate record of the movement of his stocks from the time they are received until they are shipped. Yet in few wholesale houses is it possible to tell what happens to individual purchases of merchandise, or even the condition of the stock in a given line. In this respect, jobbing houses generally have much to learn from the few who have installed modern stockkeeping systems.

15. *Stock rooms.*—The first problem in the arrangement of stock rooms is to see that waste motion is cut to a minimum. The methods of industrial management in routing material thru a factory, of which there is full discussion in the Modern Busi-

ness Text on "Factory and Office Administration," are used.

The various floors are divided so as to give each stock its proportionate space. In a large concern, there are generally two sets of stock in each line. One is the reserve stock, from which orders for full cases and unbroken lots are obtained.

16. *Stockkeeping methods.*—For each floor there is a head stockkeeper, who is responsible for the work and who gives his personal attention to the perpetual inventory and the checking of incoming and outgoing goods. In each staple line, a maximum and a minimum are set. It is the head stockkeeper's duty to report at once any case in which stocks exceed the maximum or fall below the minimum. From time to time during stock-taking periods, it is customary to check roughly the perpetual inventory in order to catch any discrepancies. This process is independent of the annual or semi-annual inventory.

The surest way to insure a clean stock is to work thru it constantly, and the stockkeeper must spend a considerable part of his time delving into it.

17. *Perpetual inventories.*—The numerous types of perpetual inventories in use among wholesalers vary in detail but are the same in principle. They depend on a card or book system; the entries are classified according to items and lot numbers. Each separate stock department operates its own system, tho small concerns frequently employ one general system for the entire stock.

The form of the stock card is regulated by the particular requirements of the concern. The main points to be covered on the record are the name of the article, the date when entry is made, the quantity received, the quantity delivered and the location of the goods in the stock room. In most cases, space is provided on the card to show the number of the article, the manufacturer's name, the maximum and the minimum stock to be maintained, the balance on hand, and frequently the size and color. Location may include stock room designation, showing the part of the room in which the article is stored and the bin number. The important thing in stockkeeping is to insure that all entries are promptly made.

If the balance of any article on hand is reduced below the minimum amount by the last entry, it is customary to inspect the bin or container of that article and, if necessary, take an actual count. An independent check of the stock record is thus accomplished, and by taking the count when the stock is at its lowest, the check is most easily made. In cases where a discrepancy occurs, there should be an immediate investigation to determine the cause.

18. *Physical inventories.*—The semi-annual physical inventory is necessary as a regular check on the perpetual inventory. It serves a further purpose in that it brings about an inspection of the actual condition of the stock, the way in which it is stored, and all other points regarding it which are not covered by the perpetual or card inventory. Nor need the physical

inventory prove a burden, altho there was a time when stocktaking caused a great deal of confusion and made employes stay long after hours, sorting, counting and checking.

The system used by a large number of wholesalers owes its success principally to the fact that it can be operated simply and speedily. Cards are consecutively numbered, made into pads and then given to the stock clerks. For each class of articles a card is made out, on which is recorded the number of articles in the class. This is continued until the original stocktaking of each section, bin or container is completed. The cards are then gathered up and checked against the goods to determine whether anything has been overlooked. After collection, the cards are examined by number to be sure that none have been lost, then they are sorted according to the data they record by catalog number, grade, kind, style or make of goods, in readiness for the extension of prices and the transference to the final summary sheets. This checking and rechecking insures accuracy, without involving any of the confusion likely to arise from the use of most other systems.

It is possible to use any number of employes in making the inventories without having them interfere with one another. Furthermore, the inventory is so subdivided that small mistakes can be corrected without disturbing the whole work. Any change due to the arrival of new goods and their being placed in stock, or the taking of goods from stock to fill or-

ders, must be recorded on the cards which bear the count for those goods.

REVIEW

What is the work of the buyers? Of what importance are the records kept by the merchandise office?

Outline the purchasing procedure and method of payment for goods bought by the merchandising division in department stores; in jobbing houses. How does the merchandise manager keep buying control? What is done with slow selling lines?

What qualifications should the buyer have? How is he chosen?

To what extent must the buyer study the market? Discuss some of the problems of successful buying. How far does the buyer's authority go?

Who fixes the sales price? If a jobber buys goods before a rise in price, is he entitled to raise his price with the market?

How is a branch office managed?

Why is careful stockkeeping important? Discuss the procedure and methods of stockkeeping.

What kinds of inventories are made? When? Why? Describe the system in use by many wholesalers.

CHAPTER V

SELLING AND SALES SUPERVISION

1. *Function of the sales division.*—In the days of the one-man type of organization, there was little supervision of the selling activities of a wholesale house. Salesmen were hired by the proprietor and told to call on the trade in a certain section. The salesman seldom heard from his house except to get printed lists of price changes, and became merely an order taker. As a result, certain concerns felt that more intensive selling could be done by mail with less expense and built their business accordingly. Others, spurred on by the good work of the salesmen from specialty manufacturing concerns, put in modern sales organizations. Today, few jobbing houses are without modern sales organizations.

The primary study of the market and the determination of the marketing policy have been discussed in earlier chapters in connection with the organization of the business. It is the function of the selling division to conduct the sales work of the house according to the predetermined policies. This is most readily accomplished by a combination of personal salesmanship with advertising and the occasional use of mail-order methods.

2. *Application of intensive salesmanship to a jobbing business.*—Selling methods must depend on the needs of the business and upon the amount that may be expended for selling work. When the demand for an article, such as Ivory Soap, has already been created, the salesmanship need not include intensive "missionary" work. In such cases, it is frequently asserted that salesmen need be only ordertakers; and this may be true. But it is certain that modern methods of salesmanship may be applied to increase the results secured by individual salesmen and decrease the expense of selling.

In some jobbing lines, such as coffees and teas, there is room for the highest type of constructive salesmanship. The selling of private brands controlled by manufacturing jobbers is of the same nature as the selling of any specialty manufacturer. Nothing prevents the jobber and his sales manager from applying the fundamental principles of selling and sales management to their activities, tho conditions and lines may add some difficulty in adapting these methods to the jobbers' work.

3. *Sales department office.*—Everything which has to do with selling and with the supervision of salesmen centers in the sales manager's office, tho here, as in the case of the merchandise manager's office, the president's office keeps the statistics by means of which sales campaigns are planned and executed and the work of individual salesmen stimulated and directed. The sales office keeps duplicates of most of the

operating records listed in Chapter III, such as analyses of operating territory, comparative statements of purchases and sales and the like.

4. *Sales plan.*—The decision as to the sales plan is a part of the general work of founding the business, and is included in the statement of policies. It remains now to put it into operation. Knowing the extent of the territory, the number of dealers to be called upon, the average number that a salesman can see in a day and the frequency with which calls are to be made, the sales manager can readily estimate the number of traveling salesmen required. At the same time, an estimate can be made of the total amount of business which the territory should yield under the proposed campaign. Then it may be necessary to add specialty salesmen to do pioneer work on private brands but, as previously stated, such men are under the direction of the merchandise manager. The sales manager may also add general-line and house salesmen.

The advertising is a part of the general sales plan. Advertising and selling are inseparable, and it is almost impossible to tell where one leaves off and the other begins. The advertising function of a sales department is just as important as hiring men to travel on the road. In order to cover the subject satisfactorily it is necessary to give two chapters to the sales division. The present chapter is given largely to personal selling and the next succeeding one to advertising and mail-order work.

5. *Dividing the territory.*—Jobbers have been in the habit of considering a territory from a standpoint of the production of the individual salesman rather than from the natural resources or the reasonable expectancy of the territory. A territory should be looked upon as a certain percentage of the sales expectancy of the house and considered from this standpoint.

Territory should be mapped out by the house from a standpoint of convenience and economy. Each territory should be studied and analyzed as a separate problem and the results to be obtained prearranged, then men found to produce those results rather than trying to arrange a territory to suit the peculiar characteristics of a man. The house should look upon a territory the same as a ten-acre farm that must be made to yield a maximum crop under intensive methods, and the salesman should be considered in the light of the farmer who is to plow, sow and reap the crop.

The task of dividing the territory among the road salesmen is always a difficult one. It is proverbial that the other fellow's field always looks better; and there will, of course, be some inherent differences. However, these differences can be reduced to a minimum by careful adjustment, and unfairness can be avoided entirely by further adjustment according to the ability of the men as proved by their records. One jobber divides his territory into three classes consisting of large, medium and small accounts and classifies

them as A, B and C territories. The new man as a junior salesman starts on C grade territory. If he works hard and succeeds, he is advanced to B grade territory in a year or two and finally to A grade territory. Sometimes, as a special reward, he is given a few B grade accounts while still a C grade salesman. There is in fact nothing to hinder a division of the territory along practical rather than geographical lines if this makes for the best interests of the business.

The more customary classification is between general house salesmen, road, and specialty salesmen as given in the organization chart, and this allows for a line of development for each man. It is customary to begin as a house salesman and in this way get the first outside experience either as a road salesman covering a section for several lines, or a specialty salesman covering a still larger territory for a single line. In time the salesman may earn a position as general salesman with almost the authority of a district sales-manager, so far as his accounts are concerned.

It may be necessary to handle some business otherwise than thru salesmen. When a grocery jobber sells to chain stores, the business is generally considered a "house account." When the buyer for the chain wishes to purchase a quantity of coffee, he makes the rounds of the jobbers until he can close a satisfactory deal for the goods desired. It is evident that only the head of the coffee department can handle such a large sale. There must be a clear under-

standing with salesmen as to what business shall be considered "house accounts." All this business is disregarded when dividing up the territory.

6. *Sort of salesmen to employ.*—The type of salesmen required will vary with the line of goods which the jobber is handling, as well as with the kinds of dealer to whom he is appealing, and the location of these dealers. The jobber's salesmen must know the working methods of their house in greater detail than is necessary for salesmen in lines where service is not so dominant a factor. Most jobber's salesmen have come up thru the ranks of their respective organizations. They may have worked first in the stock room, or the accounting department, and have proved themselves successful in the inside organization. In this way they are graduated from one department to another until they earn places as salesmen. Frequently it is possible to engage young men for clerical work in the house with the avowed purpose of eventually making them salesmen. This method distributes the expense of training over a period of years. It may be desirable to employ salesmen who have had selling experience with other first-class houses in the same line. These are usually excellent men for newly organized houses. The road experience and acquaintance with the trade are valuable assets and in many cases a salesman will bring a majority, or even all, of his customers to the new house. But the salesman who is anxious to leave an established house and make a new connection is

always open to suspicion as to why he wishes to leave, or even why he is willing to make the change to a new and strange organization. Occasionally jobbers feel it is unethical to employ such men and so insist on having men who have never sold for a competing house.

Again, there are excellent salesmen to be had from the retail field. There are men in country stores who may not have the means to run a store of their own, or who have been only moderately successful as retailers, who will make excellent traveling salesmen because they know so thoroly the retailer's problems and point of view. One distinctly successful grocery jobber recruits his force almost entirely from this source, selecting men of about forty years of age. Of course, it is necessary to train these men thoroly, in order that they may get the jobber's point of view as well as the retailer's.

There is a fourth group of men who can be developed into successful jobber salesmen. This group includes the "personality" salesmen. The individual may be a man who has not met with success in his chosen field because he is not altogether adapted to it. Perhaps he has been trained for some profession thru family influences, and really does not like his work. Some of these men may possess pleasing personalities and the knack of meeting people and impressing them with their views. Such men have many of the essential qualities of salesmen, tho training is necessary to supply any lack of business experience.

These men must be taught the inside working of a jobber's business, and something regarding retail store methods. Men of this sort are almost invariably an excellent addition to the sales force.

7. *Expense of employment and training.*—In manufacturing industries, it is estimated that from twenty-five to one hundred dollars must be spent to train a new mechanic to work efficiently. In the sales force the average expense is still higher. One large manufacturer figures that each new salesman represents an investment of at least $500. This varies, however, with each concern according to the amount of care used in selecting men and in training them. Some houses are continually changing their representatives, while others invest more in the beginning, but get better men and keep them longer.

8. *Organizing the sales force.*—In the most progressive houses it is fully realized that it is very poor business policy to send salesmen off into the field and let them "try their luck." Such a course often brings failure to men and not infrequently disaster to the house.

The modern system provides in many cases a class for the training of new salesmen before they start out in the field, followed by coaching under the guidance of a seasoned salesman. It often includes the learning of a carefully prepared standard selling talk, and presents in a sales manual for the salesmen the valuable information and counsel which has been gained

from the experience of others. In such systems the equipment for the salesman receives special attention, with the purpose in mind that each part shall be as effective as possible, and no part superfluous.

These are all fundamental concerns of sales management and are fully discussed in the Modern Business Text on "Salesmanship and Sales Management." There are a few matters, however, which should receive attention here with especial reference to the jobbing trades.

9. *Price book.*—A great deal of care is exercised in the compilation of the price book to insure accuracy and ease of interpretation. Most jobbers agree that prices should be given in plain figures and that discounts should be figured in each case so that the salesmen may find them easily. In lines such as wholesale groceries, where the salesmen are given some latitude in adjusting prices to market conditions, it is, of course, unnecessary to figure discounts in advance. Each salesman should be made to understand thoroly the terms and discounts. It is surprising how few salesmen know the purpose of terms and discounts and their method of operation. Changes in prices are forwarded to the salesmen immediately, either by wire or mail, so that they may make the necessary notations as soon as possible. A great deal of unnecessary friction sometimes arises when prices have been changed on a certain commodity and the salesman, not having recorded it in his price book, quotes the customer a

price lower than he is entitled to receive. Most houses require salesmen to acknowledge the receipt of new pages for their price books.

10. *Determining compensation.*—The question of how much the jobber should pay his salesmen is a vital one. He must know his cost of doing business and determine from this how much he can allow for his selling expense. The most important factor to bear in mind here is that a successful sales department is essential to the success of the business. If the salaries are small, only a poor class of salesmen will be attracted and results will be correspondingly poor. Good salesmen must be secured and they must be paid in accordance with their ability. The increasing demands which are being placed upon a jobber's services require that he employ higher grade men than in the past, and he must find a way to pay good men on the basis of their ability.

Originally jobbers' salesmen received salary and expenses, but more recently a commission plan or a combination of salary and commission has been much used. However, competition is so keen in the jobbing trade that it has been necessary to find a way to enable the salesmen to compete in price when necessary. This has resulted in giving the salesmen cost figures with suggested prices and then dividing with them the net profits resulting from each sale. As stated under the discussion of marketing policies, this is becoming customary in groceries and other heavy lines.

One plan used in the grocery trade is called the "base price and overage system." The price book is in code and two figures are given on each article. One figure may be the base price of say, 12 cents. No salesman is allowed to sell below this price without permission from the house. The other price is the suggested or list price of, say, 13 cents. The base price covers the cost of merchandise and the general overhead, but no selling expense or profit. The list price will bring a fair profit. If the salesman sells at 13 cents without expense for delivery, the one cent profit on each article is divided so that the salesman gets 60 per cent and the house 40 per cent. If there is a delivery expense, this must be deducted before the profit is figured and divided. Under this plan, it is, of course, advisable for the salesman to sell as far above the base price as he can. In no case can he secure an abnormal figure because competition is so keen in groceries that no salesman could sell any appreciable amount at a price far above the current market.

In another similar system the cost of each article is listed in the price book, together with suggested or list prices. For instance, a certain house figures that it costs six per cent of the selling price to do business, exclusive of selling and delivery expenses. They expect every salesman to get at least nine per cent above cost and delivery expense. From the total of each sale, all expenses for cartage and delivery are deducted and then the percentage of profit is figured.

If the salesman has secured just nine per cent, there is three per cent to divide. Of this, the salesman gets two per cent and the house one per cent. If he gets only eight per cent above the cost price, the house gets two-thirds of one per cent and the salesman gets one and one-third per cent. Various other proportions are arranged, so that the division of profits may be fair to both parties and the salesman is still left with a stimulus to get the business at as good a price as is consistent with trade conditions.

Of course the house must cut the listed cost prices below actual cost if the market is declining; otherwise, the salesman will not sell the merchandise, as he is not anxious to do so without profit to himself. Then, too, the sooner goods are sold when the market is declining, the better, for the quicker the loss is taken, the less it will be. On the other hand, if a house has bought advantageously on a rising market, it must mark up the listed cost price above whatever the goods actually cost to protect itself against possible loss on a declining market. Consequently, the cost figures in the price book under this system are the currently quoted prices rather than the prices actually paid for each quantity of merchandise.

In drygoods, a one-price system prevails. Salesmen are paid either on a salary or a commission basis, or a combination of the two. One such plan is in the form of a profit-sharing system, based on either gross or net profits, while another is a bonus system based on a pre-arranged merchandise plan. The third is

called the graded merchandise system and is based on a classification according to profit possibilities in each group of merchandise. This encourages the salesmen to sell the grades which bring the most profit, and to create more good-will for the house.

11. *Organization of recording and statistical departments.*—The foundation upon which the success of any sales campaign rests is the efficiency of the recording and statistical division. Unless records of the activities of the salesmen and the results of their efforts are kept, and these data formulated into statistics, no sales campaign can reach a high degree of success. Nothing presents so clearly the results of sales efforts as a tabulation of facts and their compilation into a chart or graph. Successful sales departments all over the country have, as part of their equipment, departments for recording and compiling statistics. Such records are not always actually tabulated in the sales department. In fact they are more frequently gotten up by the various departments from their operating records.

The records kept by jobbers vary according to particular circumstances. In any case statistics should satisfy each jobber's needs and should be as complete as those needs dictate. The overdoing of anything works for its inefficiency and only data which are vital to the successful conduct of a sales department should be recorded.

It is important to keep in mind in this connection that the labor and time required of the salesmen for

making out reports for the sales department should be reduced to a minimum. The salesman is out to get business and should not be burdened with making out unnecessary reports. Standardized forms permit information to be recorded easily and rapidly.

Records which are not put in form to use easily are often not used at all. Neglect of the records can most readily be avoided by putting them in graphic form. Daily summaries of business secured are recorded on a chart thruout the year. Monthly summaries and yearly summaries can then be made from this chart and the results shown up clearly. Many use charts to show the service which they are giving the retailer and emphasize that which appeals most to the retailer. The salesman's record can also be pictured graphically, as well as the general condition of the territory in which he is operating. Such records and statistics form the basis of the next year's campaign and show clearly the present campaign's strong and weak points.

12. *Keeping in touch with the men.*—In order to foster a spirit of loyalty and enthusiasm for hard work among the men, as well as to direct their activities, the sales manager must keep in constant touch with them. Unless he does this, the entire work of the sales campaign will fall down and the investment which the house has made in training its new men will be lost.

There are a number of ways in which the sales manager can cooperate with the salesmen. Many

sales managers make it a regular practice to spend a good part of their time in the field with the men. This is especially true with new men or with any who are not producing their full quotas of business. Other sales managers depend on calling such men in frequently for conferences. Semi-annual or annual sales conventions accomplish good far in excess of the expense incurred. Many jobbing houses work in such small territories that all their men can come in for a weekly conference, which is generally held on Saturday morning.

REVIEW

What is the function of the selling division and how does it accomplish its purpose?

Upon what do selling methods depend?

What is the purpose of the sales department office?

If you were a sales manager how would you divide territory among your road salesmen?

What four types of men may be developed into good jobber salesmen?

Describe some of the various plans in use in determining compensation for salesmen.

CHAPTER VI

ADVERTISING

1. *Necessity for jobber advertising.*—The record of successful jobbing houses shows that nearly all of them have been built up thru the force of personal salesmanship. The road men exploited their houses and their wares in the most forceful way possible—face to face with prospective customers. Consistent and faithful service at headquarters backed up the claims made in appealing for business, and the result has been the development of hundreds of big wholesale houses which have had no material expense for advertising.

But in keeping with the changes in merchandising generally, and particularly in the jobbing field, the need has arisen for the general salesmanship which we call advertising, to aid the personal selling effort of the traveling force. This is due in part to increased competition; in part to the activity of specialty manufacturers who sell direct to the trade; in part to the necessity for paving the way of the salesmen thru advertising of the "pioneer" sort; and in part to the changing conditions in retailing, particularly in the way of frequent changes in style and the keeping of smaller stocks. This last necessitates more frequent purchases than can

be made directly from salesmen, and consequently necessitates mail-order departments.

2. *Present status of jobber advertising.*—A few years ago trade papers with both national and local circulation contained only a few cards of jobbers, inserted possibly more as a matter of trade policy rather than in the hope of getting business. In a recent number of the *Bulletin of the Retail Merchants' Association of Utah,* there appeared fifteen full page advertisements placed by jobbers in that territory. This increase is typical of the growth in jobber advertising of other sectional trade papers.

The type of advertising has undergone a change. From the simple card giving the name of the firm, its line and perhaps a picture of the office and warehouse, the advertisement developed to the exploiting of private brands. There is, of course, a place for this type of advertising at the present time. But the jobber of today realizes that his function is one of service and that therefore his advertising appeal may well be based on the service he is prepared to render.

3. *Function of jobber advertising.*—Under present conditions, therefore, the first purpose of the advertising is to impress the retailer with the jobber's ability to serve as a wholesale distributer. Here, as elsewhere, words without deeds are a liability rather than an asset. The jobber must tell plainly how he can be of economic service to the retailer. This service will be based upon the general efficiency of the house in taking care of the retailer's merchandise

needs but it must not stop there. The jobber must do more than supply the most suitable wares at a fair price. He must cooperate with the retailer in selling these wares. The definite methods employed in dealer cooperation will be discussed in the next chapter. It is the first function of advertising to bring both these types of service to the retailer's attention, for they are the basis of good-will. The advertisement of M. E. Smith & Company printed on page 83 illustrates how one jobber is advertising a single phase of his service.

The second function of jobber advertising is to assist in reducing the selling expenses by blazing the way for the sales force. The jobber's salesmen seldom have time for much constructive salesmanship because of the long list of items they sell and the short time that can be given to each customer. This is particularly true in connection with the introduction of new lines or new styles. The advertisement of the H. B. Claflin Corporation is of this class.

As its third function, jobber advertising has a very definite task in linking the manufacturer, jobber, retailer and consumer together. The manufacturer's products are advertised to the retailer, and likewise the jobber assists the retailer in the retailer's own advertising of the same wares. Some jobbers arrange to cooperate with both manufacturers and retailers in a complete system of advertising. The advertising of The Symns Utah Grocer Company, given on page 85 is of this type:

Another Record Smashed

During the month of September we received 10232 orders, and of this large number only 140 were not filled

By Four O'Clock of the Same Day They Arrived at Our Offices

That's 99.98 Per Cent PROFICIENT SERVICE

An increase in service efficiency of .28 over our best record.

It seems almost incredible—unbelievable, especially at this time when markets are so uncertain. It's a fact, however, and our records are open to verify this statement.

Mesco Service
SPEED SATISFACTION

provides you with one of the largest and best open stocks of Dry Goods in the West, backed by an organization of buyers who keep our stocks as complete as human foresight will permit.

Mesco Service is of vital importance to every merchant at the present time—it is service that will be appreciated when once tried, and service that becomes more valued, the more it is used—it means the maximum delivery of goods to you—it means speed—and it means PROFITS.

This service is yours for the asking. We have worked hard to develop it to its present efficiency, and we are glad that we can offer it to you.

Write us—we want your business and we are in a position to take care of it to your greatest satisfaction.

Start today!

M. E. SMITH & CO.

Wholesale Dry Goods

OMAHA

4. *Advertising for manufacturing and semi-jobbers.*—The advertising methods of the manufacturing jobber are the same as those of the manufacturer who

sells direct to the retailer. Advertising on specific lines direct to the consumer thru farm papers and city dailies in the jobber's territory is the most effective means of promoting the general interests of the manufacturing and private-brand jobbers. A definite demand is created as in the case of the consumer advertising of the manufacturer. This brings about a complete reaction on the part of the retailer toward the jobber in the form of an order to take care of the specific demand created by the jobber's advertising.

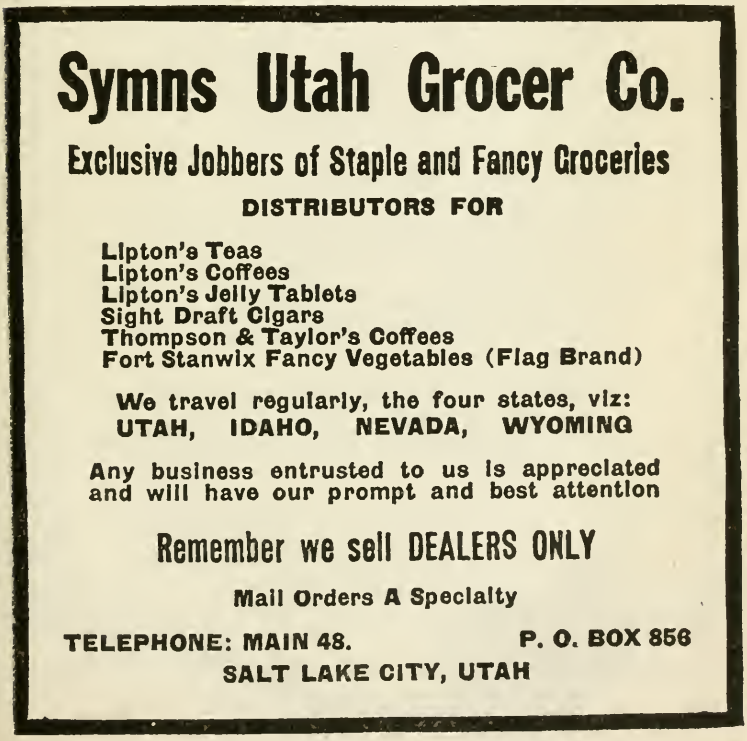
Likewise the retail advertising of the semi-jobber is identical with that of any retailer, except as the manufacturer's jobber may have extra selling arguments due to the double organization.

5. *Organization of advertising department.*—Approximately fifty per cent of the jobbing houses have an advertising department with someone giving his personal attention to the work. This percentage is increasing rapidly. When there is no separate department the advertising is handled by a committee.

In addition to the advertising copy, the department prepares the price book or catalog and keeps it revised. Frequently the dealer cooperation work is carried on by the advertising department, as in the past this work consisted largely of the distribution of advertising and selling material, such as show cards, signs and window displays. With the coming of real cooperation on the part of the jobber, such as help in store systems and accounting methods, it is frequently necessary to have a more thoro training and experi-

ence than is likely to be found in the case of the average advertising manager, and for that reason separate dealer service departments are organized.

6. *The appeal.*—The purpose of the advertising naturally determines the nature of the appeal. If the purpose is to exploit the house generally, as in the case with the advertisement of M. E. Smith & Company on page 83, the appeal of prompt delivery from well maintained stocks is excellent. If the advertisement is to do "missionary" work for a single depart-


Symns Utah Grocer Co.
Exclusive Jobbers of Staple and Fancy Groceries
DISTRIBUTORS FOR
Lipton's Teas
Lipton's Coffees
Lipton's Jelly Tablets
Sight Draft Cigars
Thompson & Taylor's Coffees
Fort Stanwix Fancy Vegetables (Flag Brand)
We travel regularly, the four states, viz:
UTAH, IDAHO, NEVADA, WYOMING
Any business entrusted to us is appreciated and will have our prompt and best attention
Remember we sell DEALERS ONLY
Mail Orders A Specialty
TELEPHONE: MAIN 48.
P. O. BOX 856
SALT LAKE CITY, UTAH

ment, the appeal must be similar to that of the H. B. Claflin Corporation, illustrated below. The direct

BONTEX
TRADE MARK

White Goods for 1917

The strongest and wisest statement we can make in this Bontex White Goods Announcement is simply to reflect what market editorials say—that this will be an especially active year for all weights and styles of white goods—that because of shortage in many qualities, alert retailers should cover their needs now, both for their own profit and to satisfy all their customers.

BONTEX Line of White Goods is ready in great completeness and we can add in splendid distinction.

Sheer White Goods—in plain and fancy effects—a particular feature of the BONTEX line—the showing includes *voiles, batistes, organdies* and *marquisettes.*

Fashionable Embroidered Novelties—are in complete range in this showing, including original effects of unusual style merit and great selling possibilities.

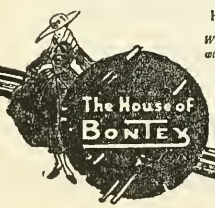
White Skirtings—Heavy Weaves which are especially popular because of their adaptability for sport fashions are—*poplins, piques, basket weaves, corded effects, tennis cloths, gabardines and beach cloths.*

White and Colored Irish Dress Linens—continue their popularity and are in complete range in BONTEX offerings, because we anticipated conditions we are maintaining the usual BONTEX Service. All popular shades, weaves and finishes in 36 and 45 inch widths.

The H. B. Claflin Corporation, New York

H. P. BONTIES, President

Wholesale Exclusively. Not affiliated with any Retail Enterprise Anywhere.



selling appeal for special lines is illustrated by the advertisement of the Symns Utah Grocery Company on page 85.

7. *Advertising appropriation.*—The neophyte in advertising decides how much he can lose in advertising without becoming bankrupt, and plunges accordingly. The man who conducts his merchandising by plan, figures out how much advertising he needs just as carefully as he figures the amount of personal salesmanship he needs to cover his territory. Once the house is well established it is possible to determine from the experience of other jobbers in the same line whether the advertising is costing more than it should. For instance, the analysis of the expense of doing business in wholesale dry-goods, given on the insert opposite page 38, indicates that the cost should be about one-tenth of the per cent on gross sales. If the cost of the mail-order catalog and other printed matter is to be included in the advertising, the total will be from .3 to .4 of 1 per cent.

8. *Selection of medium.*—It is obvious that the ordinary jobber must select the medium which reaches the largest number of retailers in his line, and a medium whose circulation is limited as far as possible to the territory in which he operates. Naturally it is seldom possible to find a medium in which there is not considerable waste circulation from the jobber's standpoint. The quality of circulation should be investigated thoroly, and papers which are not of high quality as mediums should be passed by. It is unfor-

tunately true that many trade papers exist mainly for advertising purposes. No jobber should feel it necessary to advertise in all the trade papers in his line and territory, for unless a paper is a good medium it is a parasite and should not be encouraged.

9. *Miscellaneous types of advertising.*—Advertising novelties have been used by jobbers for many years. Of course a present of a memorandum book or a desk calendar creates some good-will for the jobber, but it is doubtful whether the return is proportionate to the cost. Of greater value is the large piece of equipment, such as a store sign or a thermometer, for which the retailer pays a part of the cost, or which is given him as a reward for increasing his purchases in certain lines. Retailers, like all other human beings, appreciate most the things which cost them either time or money.

10. *Direct advertising for the jobber.*—Advertising to the retailer thru letters, catalogs and other direct forms has always been successful. During recent years many jobbers have installed mail-order promotion departments for the purpose. Such work is particularly effective in introducing a new line.

11. *Jobber's catalog.*—The preparation and distribution of the jobber's catalog is a tremendous task, as every jobber who has a catalog will testify. In some lines the catalog is not necessary, but with the increasing tendency to buy often, it is difficult to dispense with it. If the catalog is to be successful, it must, of course, be well done. In some of the large

concerns the catalog department includes a complete advertising department in itself, with a staff of artists, copywriters, layout men, and occasionally a private printing plant. However, such a condition is unusual and the smaller jobber frequently turns over the work of preparing the catalog to a specialist who assumes responsibility for the complete catalog.

REVIEW

What is the importance to the retailer of jobber advertising?

What are the functions of the advertising department of a jobbing house?

From what mediums will the jobber get the most satisfactory results?

What is the particular strength of the M. E. Smith & Company advertisement?

If you were a retailer, what sort of jobber advertising would appeal to you most powerfully?

CHAPTER VII

COOPERATING WITH THE RETAILER

1. *Jobber's obligation to cooperate.*—In the final analysis the jobber's function is to serve the producer or manufacturer in distributing his goods by means of the retailer, and to serve the retailer by providing him promptly and in proper quantities with the merchandise he cannot get economically direct from the manufacturer. The main element in any jobber's work is one of service. In the present chapter we are concerned with the cooperation which the jobber, together with the producer or manufacturer, renders to the retailer. This is commonly called "dealer cooperation" and the material used for the purpose, "dealer aids."

For many years jobbers have been cooperating with retailers in various effective ways. Jobbers' salesmen have made it a point to pass along from one retailer to another good ideas on merchandising. Credit managers in wholesale houses have always been ready to confer with retailers on their financial problems. Many jobbers who make no pretense of having a special man or department for dealer cooperation work have been acting effectively as business advisers to their retail customers. From this they have built up a great deal of good-will.

2. *Two kinds of dealer cooperation.*—The jobber gives the most valuable cooperation when he acts as a friendly adviser to the retailer in any of his business problems. It is common for a young man about to enter the retail business to make a trip to the jobbing house with which he proposes to deal. He will go over with the sales manager, or even the president of the house, the proposed plans and get assistance in planning his business along proper lines. Such jobbing houses, for instance, as Butler Brothers in Chicago, go to great pains to be of every possible help in such cases and point with pride to the retail concerns which they have helped to launch.

3. *Helping in the solution of individual problems.*—Beyond such preliminary assistance the jobber can be of frequent service. Whenever the retailer strikes a problem which he seems unable to solve, he will find the jobber with whom he does business ready and anxious to help.

Many jobbers have a report blank which the salesman is required to fill in at every call so that the jobber may anticipate needs, and whenever he feels that his help would be welcome, to take the initiative. In many cases the salesman sees the retailer's difficulties and can suggest the remedy at once. This would be the ideal form of dealer cooperation, but unfortunately few jobbers' salesmen are sufficiently trained in retail merchandising to give the necessary cooperation. One of the biggest opportunities at present in jobbing is in connection with the possibility of train-

ing the jobber's salesmen to be service men as well as salesmen.

4. *Credit man as service man.*—The next point of contact with the retailer will come thru the credit department of the jobbing house. In trying to find out why the merchant is slow in paying his bills, the credit man frequently puts his finger on the retailer's weak spot. He may discover that the retailer, thru lack of knowledge of his cost of doing business in each line, may be selling certain lines below cost. Again, he may find that a large part of the retailer's capital is tied up in dead stock. In such a case he can recommend an inventory system or a set of checks which will show what goods are selling and at the same time protect the retailer against leaks. He may find that the retailer is unable to get the credit he deserves at his bank because he cannot draw up a good statement showing the condition of his business, with its comparative yearly growth. When a dealer's business shows signs of impending bankruptcy it is the policy of many credit managers to take the first train to the retailer's town. A slight study of the situation will enable a good credit man to save a large percentage of such failures, and the time and expense involved is a good investment.

5. *Dealer aids.*—The second and most common form of dealer cooperation is in the form of aids for the sale of individual articles. These consist of window displays, signs, booklets descriptive of the merchandise and its methods of manufacture, and the

like. In the case of such articles, the material itself must be prepared by the manufacturer of the merchandise. Therefore, except in the case of his own private brands, the jobber must look to the manufacturer for these dealer aids. The man who creates a special brand of merchandise is really the logical one to create the aids for its sale.

It is not our purpose here to discuss whether or not the jobber should handle nationally advertised brands other than those of his own manufacture, but rather to point out his source for dealer helps. In case he does handle such lines, for his own sake he must cooperate with the manufacturer in the distribution of any dealer aids provided by the manufacturer.

Of the two types of cooperation, the former is the more important. The average retailer needs help in devising a good accounting system or a means of training his clerks in salesmanship far more than he needs additional window trimming material or show cards. Unless he has the means to increase his merchandising ability generally, it is of little use to add to the selling devices. The jobbers of the country and everyone else dependent upon the retailer for final distribution realize this also. Jobbers' associations are working hard on the problem, and furthermore, thru cooperation with their members and with retail trade associations, they are doing much to help the retailer become a better merchant. Several outside agencies, such as the Associated Advertising Clubs of the World, have organized departments to cooper-

ate in devising accounting and cost-keeping systems, and the like. It behooves the jobber to cooperate with every reputable organization engaged in the work and to collect useful material from every available source.

6. *Accounting and store systems.*—An investigation made by Robert H. Ingersoll and Brother proves that in the majority of small retail stores only twenty per cent of the stock is active. Mr. George W. Whelan, President of the United Cigar Stores Company, estimates that less than fifty per cent of the retailers take an inventory once a year. Yet the means for keeping track of one's stock so that the slow-moving goods may be weeded out, may easily be obtained by means of a simple accounting and stockkeeping system. It enables the retailers to find out in a moment the amount of stock of each kind on hand, the turnover on each line, and consequently the lines which are profitable, the sales of each clerk, and finally the total sales by lines. The expense of doing business, together with the percentage of net profit and the total profit on each line may also be easily determined.

Many retailers are afraid to adopt complete modern retail systems because they believe that such systems are too complex and require too much clerical labor. Yet the average country storekeeper wastes hours every day; and the same is true of his clerks. It is one of the duties of the more progressive retailers as well as of jobbers and manufacturers to educate the country retailer to appreciate the value of such

systems. A duty rests likewise upon those who devise such systems, to make them both simple and effective. Any junior accountant can devise a complex system; but it takes a genius to balance simplicity with effectiveness. The jobber is wise who gives patient thought to the study of the needs of the retailer before recommending the remedy.

7. *Advertising helps.*—Dealer cooperation began with advertising helps, and this form of service to retailers is still the most common. These consist mainly of electros of advertisements, booklets and catalogs, counter and store cards, window displays and store signs. It was so easy to get out material of this sort and scatter it broadcast that it was overdone. Retailers receive so much more material than they can possibly use that much of it is thrown away. Manufacturers and jobbers are realizing this situation and as a result some send material only on special request, while others arrange for one of their salesmen to investigate the needs of each retailer and to deliver the material he is sure will be used. In the case of window displays it is customary to have a crew of men who deliver and set up the display. The present tendency is to improve the quality and cut down the quantity of display material.

The manufacturers and jobbers have also become convinced that advertising service, to be effective, must be individual rather than general. Retailers need help in planning their advertising campaigns and in the preparation of copy. Here the jobber has an

advantage over the manufacturer, as he prefers to give individual help rather than to supply expensive printed material. Furthermore, retailers want to feature themselves rather than the manufacturer or the jobber. The jobber has no desire to feature himself in the advertising; he agrees with the retailer in the matter.

In cases where jobbers do little advertising themselves and have no organization for the work, they can combine to form a joint dealer-service bureau. The jobbers of St. Joseph, Missouri, organized such a bureau and employ an expert in merchandising who gives his entire time to the assistance of the retailers in the jobbers' territory. The work has been strikingly successful.

8. *Dealer service thru the house organ.*—Recently many jobbers have come to realize that the house organ, if it is to succeed, must be something more than disguised advertising; in fact, that it must be first of all of service to the retailer. The house organ is an excellent medium for keeping the retail trade informed on business opportunities and trade conditions. The complaint is frequent among retailers that on account of the large variety of articles which they handle, they are unable to study the selling possibilities of many of them, and that manufacturers and jobbers give them little real help in this way. Descriptions of methods used by other successful merchants are particularly acceptable.

9. *Retail salesmanship.*—There is a great oppor-

tunity for the jobber to assist the retailer. The jobber's salesman is in closer touch with the needs of the dealers in his territory than perhaps any other person interested in the distribution of goods. If this salesman is a man of keen observation, he can easily find the clerks who need training in salesmanship, and persuade the dealer to allow them to take a course of instruction. The four general methods of helping the retailer to improve the selling ability of his clerks are these: (1) systematic instruction by means of correspondence courses; (2) personal demonstrations; (3) salesmen's contests; and (4) unsystematic instruction thru house organs, booklets and circulars.

10. *Correspondence courses in retail selling.*—The use of correspondence courses, which is the first method of improving retail salesmanship, is the only thoro one. Because of the expense involved, few jobbers are able to work up such courses independently. The material, however, can be obtained from manufacturers, trade associations and educational institutions, or direct from text-books on retail selling. Generally it is best for the jobber to cooperate in this work with other agencies. One manufacturer has recently found that by making a small charge for his course he increases the appreciation of its value and, correspondingly, the proportion of those who complete it satisfactorily.

11. *Demonstrations of salesmanship.*—Some manufacturers have traveling salespeople who instruct clerks in the dealer's establishment, while others main-

tain a training school at the factory. Sometimes state universities, such as Wisconsin, thru their extension department supply traveling instructors. In certain cities the educational authorities are in a position to conduct classes in retail salesmanship in the high schools of commerce. In fact, the sources of help of this sort are numerous.

12. *Sales contests.*—The third means of improving retail salesmanship is sales contests. Salespeople will work harder to increase their efficiency when there is a reward or prize in sight than under any other circumstances. It is easier to see a direct reward in the shape of a prize than an indirect reward in an increase in salary at some future day. Therefore, weekly sales contests, quota systems and the like, offer an excellent stimulus to the study of how one may increase selling efficiency.

13. *House organs and miscellaneous dealer literature.*—Many people who would not follow a systematic course are reached by means of practical examples in the form of anecdotes and articles in house organs and dealer literature. This influence is continuous in its operation. Such instruction, tho not systematic, can be very effective. In order to hold the interest of the clerk and the dealer, the house organ should constantly emphasize the great importance of the work done by the clerks of the retailer. The biggest problem to solve in this form of instruction is getting the literature to the clerk at a time when he is able to read it. Accordingly, it is much

better to send the literature to the clerk's home, where he has time in the evening to study it.

14. *Selling points of merchandise.*—Unless a salesperson understands the selling points of the merchandise, he is in no position to use his training in salesmanship. It is easy to obtain this information, since manufacturers are taking great pains today to prepare literature describing materials, process of manufacture and points of merit, all of which can be used in selling their products to the consumer. Here again the jobber comes in as a distributor. With his knowledge of the dealer's needs, he is in a better position than the manufacturer to place this material in the hands of the retailers who need it most. The jobber can act in the capacity of a clearing house on merchandise information from every possible source.

15. *Trade extension trips.*—Another effective means of cooperating with the retailer comes in connection with "trade extension excursions." A number of executives of the various wholesale houses in different lines in a city, charter a special train and visit the retail trade in a series of towns in their territory. This method enables them to meet their customers and establish friendly relations with them. It also offers an excellent opportunity for the jobber to get an impression of the customer's capacity and reliability, as well as of his requirements with respect to additional service.

16. *Merchants' weeks or seasons.*—Another way of bringing the retailer into direct contact with the

jobber is to conduct merchants' weeks or seasons. Instead of the jobber's visiting the retailer himself, the retailer comes to the jobber. This is usually handled by an association of jobbers of a city or by the wholesale trade department of the Chamber of Commerce. The first inducement is a refund of carfares to those who purchase a stated amount from jobbers of the city. A series of lectures on retail merchandising is usually offered during the period. The lecturers are the best men to be obtained, and the course is well advertised in advance so as to insure a representative gathering. The plan is used with much success by various jobbers' associations in the Middle West.

17. *Checking up results from dealer service.*— Because of his frequent visits to the different retailers in his territory, the jobber's salesman better than anyone else can keep track of results from dealer service. If he is the right kind of salesman he will be constantly on the alert to watch any change in the retailer's store. It will not be difficult for him to note whether the advertising material furnished by the jobber has been used or not. He can easily see whether the retailer's clerks are improving their salesmanship. The jobber's salesman is usually allowed to roam all about the store, and in so doing he can have a talk with the credit man or the bookkeeper, and find out whether the accounting help given by the jobber has been used and whether the retailer has established his credit department on a more efficient basis. The salesman should be required to report to the jobber the results

of his visits, and in all cases the data should be indexed and filed away for future reference.

When electros are supplied for advertising service, some jobbers employ a newspaper clipping bureau to clip the advertisements of the retailer and turn them in to the jobber. This is perhaps the most efficient means of checking this form of service. Another method for checking service is to inclose a return postal card with the material sent to the retailer, with a form on the back for the retailer to fill out. Here are some of the questions included on the card sent out by a prominent manufacturer of silverware:

1. Have you found the advertising aid helpful to you?
2. What change or improvements would you suggest?
3. Have you used the window display matter sent you?
4. Can you trace any direct results in sales from the use of this material?
5. What results can you trace from the use of circulars or other helps which we have furnished you?

This manufacturer reports that less than half of these cards are returned, but nevertheless he feels well satisfied with the results he is able to secure.

In order to tabulate the results it is necessary to have a card index of all dealers to whom such service has been supplied. These cards should contain a record of all advertising material sent to the dealer, the nature of all other service furnished him, the use he has made of it, the results he reports, and any criticisms or suggestions received from the dealer relative to this advertising material or service in general.

The salesman's report on the kind of help the dealer can use and prefers is also recorded on each dealer's card.

REVIEW

What are the common forms of dealer aids used by jobbers?

What do you consider the most valuable form of dealer co-operation? Why?

How may house organs be made most valuable to the retailer?

What do you consider the best method of improving the standard of retail salesmanship?

How, also, may the jobber help increase the retailer's sales efficiency?

How may dealer service be best checked and improved?

CHAPTER VIII

OPERATING THE BUSINESS

1. *Function of the operating division.*—We have already discussed the financial, production or merchandising, and sales divisions. It is obvious that there must be an accounting division. In a jobbing concern it is found advisable to include with the accounting division, all the other clerical and miscellaneous departments which are not limited in their function entirely to financing, buying and selling. Various names are given to this combination division. The most appropriate seems to be "operating division," suggested by the National Wholesale Dry Goods Association. The duties of the operating division are to handle the merchandise, keep up the physical plant used by the business, and record all the activities that are necessary to its operation. The relation of these detailed activities and their respective departments to the remainder of the organization will be grasped readily from the general organization chart facing page 40.

2. *House manager.*—The house manager has under his immediate supervision nearly all the clerical force of the operating divisions. In many concerns he is responsible also for the employment, training and

disciplining of all clerical employes, including those detailed to work in the financial, merchandise and sales divisions. It is generally conceded that the best results may be obtained in this way thru the setting of uniform standards. In a large concern, where it is impossible for one man to do all the work, an office manager looks after the details of supervising the general office, and a house superintendent performs a like function in connection with the work of the remaining departments in the warehouse.

The work of the house manager is to plan and develop the systems used in the various departments of the operating division. He sets standards for the employes generally and for each department specifically, formulates the house policies, devises scientific units for efficient work in each department, and corresponding wage systems, looks after the training of employes and their welfare, and in all this work he seeks to develop that esprit de corps which is so necessary to the successful operation of any business.

3. *House policies.*—In this connection we are concerned with internal house policies. The most important house policy relates to the problem of employment. If an esprit de corps is to be developed in the office force, both management and employes must realize that any business concern is founded on the cooperation of capital and labor. This is the fundamental principle on which a successful jobbing business is to be erected. It is as necessary to have an enthusiastic corps of office employes as it is to

have the same spirit of enthusiasm instilled in a sales force. The work must begin with the employment of only such people as have possibilities for development for the executive positions in the house or sales force. For each employe there must be set a definite line of development and advancement. This requires systematic training and proper working conditions. A jobbing business calls for the efficient handling of an enormous amount of routine work at a small cost per unit, and the only way this work can be done successfully is to employ a thoroly trained force, in which each member is an understudy to some higher employe.

4. *Methods of employment.*—All positions, except under extraordinary circumstances, are filled by promotion. In many jobbing concerns the highest officers have come up thru the ranks from the position of office boy or stock clerk. But there are disadvantages in following such a method exclusively, as people who have come up thru the ranks often lack breadth of view. They are inclined to think that because something has always been done in a certain way, there can be no better method. As a result, the methods of many houses are old-fashioned and expensive. This condition is being changed rapidly as more information on methods of up-to-date houses is being made available and competition is forcing a search for more efficient methods.

5. *Standards for clerical work and wage systems.*—Just as in the case of factory work, standards for all

operations can be set. One dry-goods house has standards for every type of work. For instance, in its correspondence with retailers, in which a form-paragraph system is used, this firm found that the stenographers were typing an average of fifty letters a day. Since the company was satisfied that they were not working up to reasonable capacity, a small bonus was offered on all typing in addition to the fifty letters daily. At once the girls, with apparently no special effort, began doing an average of seventy letters daily. Finally, in connection with a general wage increase, the standard day's work was set at sixty-five letters and a bonus arranged for all production beyond that, together with a penalty for errors. The girls are now doing an average of seventy-five to eighty letters, while the typing is being done at a considerable lower cost per letter. In the same way standards on billing, packing, shipping and all other lines of work were set. By this method it was possible to increase wages per person and at the same time decrease the operating expenses, get out the orders more promptly and reduce the percentage of errors. This wage system is based on a straight salary, for which a minimum output is required, with a bonus for increased output and a penalty for delays and errors. In addition, special bonuses are awarded for good suggestions, for regularity and promptness in attendance, and for every other factor which serves to measure an employe's usefulness to the house. From these bonuses are

made deductions for any shortcomings, such as tardiness, absence and the like.

6. *Instruction and welfare work.*—Systems of instruction such as are used in retail organizations and are described in Chapter V, Part II, are coming into use in wholesale houses. It is generally conceded that there is a need for courses in salesmanship for the sales force; moreover, there is a like need for study by the clerical force of the house policies and systems in general. A definite training in the work of the department in which the new employe is to work is essential. In this connection a manual of operations, explaining in detail the function and system of each department, together with samples of the forms used, is of great value.

Welfare work must not be overlooked in any organization where the chief officers cannot come in daily contact with each employe. The point of view should be one of cooperation if each employe is to do his best work, rather than the patronizing attitude so noticeable when welfare work first came into prominence.

7. *General office.*—While the number of departments in the general office varies with the kind and size of the business, the functions to be performed in each are uniform in most jobbing houses. From a functional standpoint it does not matter whether the extensions on the invoices are checked by the billing department or by a separate profit and cost department. It is easier to explain the different functions,

however, when each department is limited to one particular activity. Since there are eleven distinct functions in the average wholesale house, an organization system is here described in which these functions are represented by eleven distinct departments. The different departments will be discussed in the order in which a customer's order would pass thru them.

8. *Order and registry departments.*—After the order has been checked by the sales department to show that it is satisfactory in regard to terms, prices and the like, it is passed to the credit department for approval. It is then registered in the order book. This may be termed the book of original entry. Cards may be used instead of a book. The order book shows the name and address of the purchaser, the date, the salesman, the order number, the kind of order and the departments represented. After the goods have been shipped, the date of shipment is entered from the shipping ticket. The order number, or registry number, as it is more frequently called, appears on all records thereafter connected with this particular order and is the basis for its identification. Orders are registered numerically and entered in the order book as they are received.

In most houses the order department is responsible for the preparation of duplicates of the order, which are sent to each department concerned, so that each may work on the order at the same time. In Sprague, Warner and Company of Chicago, the salesmen are required to make out their orders with an indelible pen-

person, the lost time must be reported at once to the office manager or house superintendent; otherwise the clerk who received the order late will be held responsible for holding it longer than necessary.

The maximum time allowed each person to take care of his part in filling an order is worked out in advance. In one large Chicago wholesale house, the maximum time from the moment the order is received until it is filled and out of the house is three hours, while the average time is slightly under two hours.

10. *Order department reports.*—The process of filling the order really begins in the order department. It is the function of this department to keep track of it and particularly to observe the promptness with which it is filled. The form on page 112 is used for this purpose in one large concern which is making an enviable record for success in filling orders the day they are received.

11. *Order and registry for mail orders.*—A number of concerns have a special department to handle all orders received thru the mails, while in others the order and registry department takes care of them. The volume of business received by mail should determine whether a separate mail-order department is desirable. Such a department has an advantage because much discretion is required to make sure that the desired goods are properly selected. Frequently mail orders are ambiguous, and therefore someone must be able to interpret the retailer's needs correctly. The plan is identical with that of the mail-order de-

ORDER DEPARTMENT REPORT

Day of Week and Date _____

KIND OF ORDERS	NO. RECEIVED	NO. NOT FILLED	DEPARTMENTS CARRYING OVER ORDERS NOT FILLED																	
			8-12		16-17		30-31		20-24		28-29		33-35		36-40		44-48		52-56		TOTAL	
			A.M.	P.M.	A.M.	P.M.	A.M.	P.M.	A.M.	P.M.	A.M.	P.M.	A.M.	P.M.	A.M.	P.M.	A.M.	P.M.	A.M.	P.M.	A.M.	P.M.
Mail																						
Regular and House																						
Advance																						
Back Order																						
TOTAL																						

NO. OF ORDERS DETAINED										PARCEL POST AND EXPRESS			
8-12	16-17	30-31	20-24	28-29	33-35	36-40	44-48	52-56	TOTAL	NO. NOT FILLED	NO. NOT PACKED	NO. PACKED NOT SHIP'D	TOTAL

ORDERS NOT FILLED AT 4 O'CLOCK									
	8-12	16-17	30-31	20-24	28-29	33-35	36-40	44-48	52-56	TOTAL
No. Sent Up between 7.30 and 12										
No. Sent Up between 12 and 4										
No. Sent Up After 4 P.M.										

GRAND TOTAL

No. Not Trucked _____ No. on Tables _____ No. Being Packed _____

Total No. in P. Room _____ No. on Dock _____ Grand Total No. Not Shipped _____

REMARKS: _____

Form I-E468 1M-65501—Rees 8-21-16

THIS REPORT IS MADE OUT BY THE HEAD OF THE ORDER DEPARTMENT EACH MORNING. THE INFORMATION CAN BE ARRIVED AT BY MAKING CHECKS OF THE ORDERS AT DIFFERENT TIMES DURING THE DAY.

partment in a department store, where mail-order shoppers are sent out with each order to select the desired goods from stock.

12. *Traffic department.*—The work of the traffic department is to check up freight charges on both incoming and outgoing goods and make claims, when necessary, to the transportation company. In the case of incoming goods, the traffic man, in many houses, checks all future orders to make sure that the best route and the lowest rate consistent with the type of merchandise ordered is specified. A good traffic man can save his salary by checking the freight costs on incoming merchandise and making claims for overcharges, except possibly in such cities as New York, where so much of the merchandise is obtained from local wholesalers. But the main work of the traffic man is in connection with outgoing shipments. Generally the shipping route is specified by the purchaser, but as freights are often prepaid there still arises a possibility of saving. For instance, large New York jobbers ship in bulk to Galveston and then contract with Galveston cartage firms to receive and deliver or reship the goods. It is the duty of the traffic manager to arrange such special means as this whenever desirable and then check the freight bills to see that these instructions are followed and that the lowest possible rates are obtained.

The traffic man has another function in connection with claims. Most jobbing houses feel that they are better qualified than the customer to follow up claims

for damage to goods in transit. This work frequently takes a large part of the time of the traffic department force, and in handling it the jobbing concern is performing a real service for its customers.

13. *Contract department.*—Jobbers usually purchase some commodities on long-term contracts. This is particularly the case during such periods of rising prices as occurred in 1916. Buying by contract is an important part of the jobber's activity because of the speculative possibilities in market operations. Such contracts are recorded and looked after by the contract department, tho in many concerns the contract department is a part of the merchandise division rather than a part of the general office. When contracts for future delivery are made by buyers, records are provided, and as deliveries are made the records are checked after the fashion of a cumulative inventory, to show how much has already been delivered and how much remains to be delivered on the contract. It is necessary also to make sure that contract agreements are being maintained. When goods are received too soon, unnecessary expense for warehousing and insurance, as well as for interest on capital, is incurred. If goods are received too late, a loss of sales and a general confusion of the merchandise plan may follow. It is therefore a necessity to keep constantly checking the records of delivery against the various contracts.

Another important activity frequently assigned to this department is the recording and filing of back

orders, as well as advance orders, from customers. Even when stocks are most carefully regulated, there are likely to be times when certain lines are short, or "out of stock." When an order for immediate delivery comes in, shipment is made of items in stock. If the order calls for goods out of stock a record is made of the goods short. Each line short is put on a separate card and then, as the stock is replenished, shipment is made. Customers are advised to purchase elsewhere or to reorder later if the delay is likely to be long or if the amount of the back order is too small to make up a separate shipment.

A record is also kept of orders taken for future delivery. In most jobbing lines, a large part of the business is obtained some months in advance of seasonal requirements on the part of dealers. For instance, in the dry-goods business, orders for fall merchandise will be taken between January 1 and June 15 preceding, and these are entered up for delivery in August or September. Because of the advantage to the jobber in getting orders in advance, an extra or "stock order" discount is sometimes allowed as an inducement.

14. *Billing department.*—In some wholesale houses, in order to expedite the work, the bills are made out while the goods are being selected and packed. In many houses the billing is done in the packing room. This method is not so successful in grocery houses, where goods need little or no packing, as they are sold largely in the original containers. The simplest way

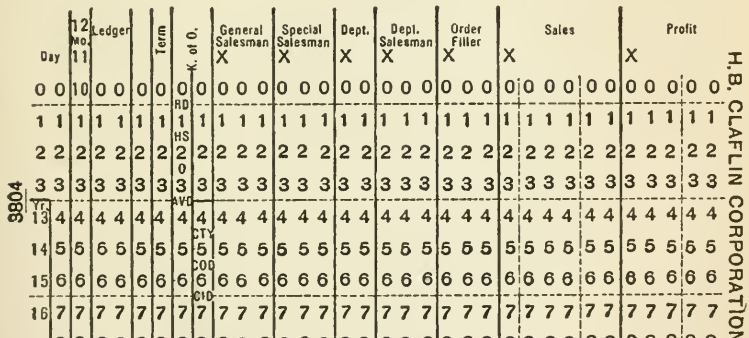
is to have the original order, together with the floor sheets if any are used, and the bill of lading returned to the general office as soon as goods are shipped. Then the invoice can be made out from complete information. Houses which use this method succeed in mailing invoices on the same day that the goods are shipped. This should be the rule everywhere.

15. *Claim department.*—All claims made by dealers for credit on goods returned are handled by the claim department. Claims against the transportation companies, however, are usually turned over to the traffic department. Since the volume of goods returned by the dealer to jobbers is great, the work of this department is very important. The dealer must be satisfied or he will be lost as a customer, and it therefore behooves every jobber to establish a liberal but firm policy and an organization for handling these claims.

16. *Profit and cost department.*—In every jobbing business a profit and cost department is essential, for it is the source of the most valuable statistics—those on sales and profits. As soon as the invoices are made out, they are sent here for auditing. The prices are checked and then the extensions are verified by means of a non-listing adding machine. Next the profits are figured and entered on either the original order or on the carbon of the invoice, which is retained for the office files. From the total of profits, the cartage is deducted to give the gross profit to the house. Next a slip is made out to show the total amount of each

order for each department and the gross profit to each department.

In the large concerns, the figuring is done on a tabulating machine. A card is punched for each order, showing the number of the salesman, the date of the order, the totals of the sale for each department and the corresponding profits. Then by running thru the tabulating machine all the cards representing one day's business, any desired combination can be obtained, such as the totals for the day of a department, of a salesman or of a section of the country. These cards are kept for several months, so that any desired combination of statistics can be had on short notice for any period.



At the end of the month each salesman receives a statement of his total sales and profits, together with a statement of the same month of the previous year, as in the exhibit.

17. *Bookkeeping department.*—The duplicate copy of the invoice, together with the original order, now goes to the accounting department, where they are

Form 126. 2M 7-10-16.

Smith Salesman

DEPARTMENTS	1916 SALES	PROFITS	PER CENT	SAME MONTH LAST YEAR SALES	PROFITS	PER CENT
1 Sugar	1480	40				
2 Tea	1850	250				
3 Coffee	2100	250				
4 Tobacco	258	18				
5 Flour Cereals	720	72				
6 Molasses Syrup	200	20				
7 Cheese	483	42				
8 Dried Fruits	342	18				
9 Canned Goods	1500	300				
10 Fish	150					
11 Miscellaneous	1375					
12 Manufacturing						
13 Cigars	250					
14 Fancy Groceries	325					
Total						
Cartage						
Allowances						
Net						

posted after the usual fashion. The orders are next filed away alphabetically according to the customer's name.

18. *Cashier, stenographers and miscellaneous general office employes.*—The cashier receives all money which is paid to the concern on account of goods purchased, and renders a daily statement in quadruplicate; one goes to the auditor, one to the credit man, one to the accounting department, while the fourth is filed in the cashier's office. This statement gives a list of amounts received and states what accounts should be credited. The duties of the stenographic force and telephone operators are obvious.

19. *Warehouse department.*—The employes connected with the receiving and shipping of the goods and all those engaged in taking care of the building used by the concern are included in the warehouse department, which in large concerns is under the direction of the house superintendent. Both he and the office manager report direct to the treasurer, who also acts as house manager in general charge of the operating division. This relation which the house superintendent bears to the organization as a whole, and the general outline of his department is shown on the organization chart facing page 40.

20. *Receiving department.*—All goods which are ordered by the merchandise division are received by the receiving department, which is responsible for seeing that they are in good condition. The receiving clerk makes out on a blank form a list and a descrip-

tion of all merchandise received in connection with the invoice or the purchase order. This is sent to the merchandise office, where it is checked against the original purchase order to make sure the goods are as ordered. It used to be customary to check against the invoice goods received in the receiving department. The hurried or careless receiving clerk checked as having been received in good condition much merchandise which was short or damaged. The receiving clerk holds the goods until he gets authority from the merchandise office to send them to stock. As was remarked in the chapter on Merchandising the Business, each buyer supervises his own stock, while the house manager or superintendent inspects and regulates the physical condition of the stocks and the methods of storage.

21. *Packing department.*—Reference has already been made, in connection with the discussion of the order department system, to the various ways of handling orders. The organization of the packing room depends on the order system used. In dry-goods houses a general packing room is necessary, while grocery houses need an assembling room, except when items are required in less than full package lots. Many houses have their own box-making plants with automatic machinery; in dry-goods houses the baling machines are included in the equipment of the packing room.

It is the duty of the chief clerk of the packing department and of his assistants to check over the goods

sent from the warehouse stock with the customer's order. If he passes the order, the goods called for are supposed to have been shipped and the invoice is made accordingly. For this reason it is essential that the checking be done accurately.

22. *Shipping department.*—The shipping clerk makes out the bill of lading and labels the shipment. In many concerns the requisite number of labels are made in the order and registry department, and each shows what goods are to be shipped on it. The streetmen check each outgoing shipment to make sure that nothing goes out that is not under a regular label. The idea, of course, is to prevent shipping clerks from shipping goods irregularly. The order is now ready to be taken to the freight house for shipment. Copies of all bills of lading are filed in the shipping department, or attached to the original order when it is returned to the billing department. City deliveries are handled in much the same way, except that a delivery ticket is made out instead of a bill of lading.

REVIEW

What functions are performed by the operating division? Into what departments is this division usually divided?

Why are wise house policies particularly necessary for a jobbing house?

What do you think should determine the location of departments in the warehouse office?

What is the importance of the traffic department? The contract department? The profit and cost department?

Why is it desirable to have invoices made out in the packing room?

CHAPTER IX

MANUFACTURING JOBBER AND SEMI-JOBBER

1. *Manufacturing jobber defined.*—The term, manufacturing jobber, is applied properly only to the jobber who actually manufactures and brands the merchandise which he sells at wholesale. Some activities which might be considered manufacturing functions, such as sorting, cleaning and roasting coffee, have always been considered within the scope of the regular jobber and so do not put him in the class of manufacturing jobbers. It is necessary, also, to distinguish the manufacturing from the private-brand jobber who buys goods in bulk and puts them up in packages under his own brand.

2. *Why jobbers manufacture.*—Various reasons are given by jobbers for manufacturing their own goods, but seldom do two jobbers give identical reasons. In fact, the reasons for manufacturing are not the same for every department of the same house. The most common reasons given by jobbers for manufacturing are the following:

a. In many lines, the profit on both staples and manufacturers' specialties is insufficient, and in such lines the jobber must add a manufacturer's profit in order to make any money.

b. It is necessary to control the quality of the goods, especially in food products.

c. There is an advantage in handling goods in bulk, and thus saving not only warehouse space, but also loss from broken containers and soiled packages. The goods may be put into packages as required.

d. Control of the market thru control of both the manufacture and the marketing of particular brands has obvious advantages. It is claimed that the jobber who manufactures, brands and advertises a line successfully creates a consumer demand which forces the dealer to come to him to buy these goods.

e. The trade of chain stores, department stores and buying exchanges which would otherwise go to the manufacturer, may be diverted to the jobber if he is prepared to manufacture his own goods.

f. The possibility of bringing out new lines ahead of the manufacturer is a further advantage.

g. Manufacturing gives the jobber the opportunity of selling to retailers who are competing with one another, because he can make up a special brand for each retailer.

h. Manufacturing leaves the jobber free to follow his own interpretation and analysis of the demand in every respect and to act accordingly. One dry-goods jobber increased his turnover from twice to nine times in one line, by manufacturing the goods to meet his own trade's demand.

i. A small manufacturer whose line is so limited as to prevent his establishing a sales organization may be

given an opportunity to enlarge his business by becoming a manufacturing jobber.

j. The jobber may, by manufacturing, be able to improve the source of supply of merchandise.

k. The prestige which comes from manufacturing the goods sold offers a strong inducement to many jobbers to undertake manufacturing.

l. The personal desire on the part of the jobber to develop into a manufacturer is a further inducement.

Large manufacturing jobbers in the grocery line frequently consider the last two points as the strongest reasons for entering the manufacturing field.

3. *Methods of organization.*—In the business of the manufacturing jobber, the manufacturing unit may be run as separate from the wholesale department and have all the functions of a complete manufacturing business. An expert in manufacturing is engaged as factory manager. A complete accounting and cost system for the factory is maintained, and prices to the wholesale department of the business are figured so as to show a profit, if possible, for the factory. Frequently the factory is incorporated separately, tho both concerns may have the same officers. Sales are frequently made from the factory to other jobbers.

Under another plan of organization, each department of the jobbing business does such manufacturing as may seem advisable. For instance, the buyer of vanilla extracts may decide to manufacture instead of buy extracts in the open market. It is a com-

paratively simple matter to obtain the vanilla beans thru a broker or an importing house and to instal the necessary machinery for grinding the beans and for preparing and bottling the extract.

4. *Relative advantages of the two types of organization.*—The type of organization to be employed must depend on conditions, such as the amount of manufacturing to be done and the kind of goods to be manufactured. Concentration of the manufacturing helps to bring about a large-scale production which largely reduces the cost of the finished product. Furthermore, under a separate factory system it is easier to allocate costs and to arrive at a correct figure for each step in the process, as well as for the total cost of the finished product. Some jobbers maintain that this plan produces friction between manufacturing and sales department to the point of defeating the ability to meet competition.

Those jobbers who are in favor of putting each buyer in charge of the manufacture of his own particular line, maintain that a considerable saving results from a combination of the buying and manufacturing function in each department. They believe that the buyer's expert knowledge of the requirements which the product must meet make him better able to supervise the manufacturing than someone less familiar with the public demand. They contend, further, that it is quite possible for one man to supervise both manufacturing and buying, and in support of their contention they point to many concerns in which

each buyer manages his own manufacturing. The vanilla-extract manufacturing can be handled best in this way.

5. *Production methods.*—All the principles of factory administration are applicable to the business of the manufacturing jobber. Especially is this true of those principles that govern methods of routing the work, time schedules, the use of labor-saving and time-saving machinery, standard methods of operation and premium systems for wage payments. The factory systems in any one of a dozen or more of the large wholesale grocery concerns in the United States and Canada are models of industrial organization and management.

6. *Stockkeeping.*—The manufacturing jobber keeps most of his stock in bulk, packing it and preparing it for shipment only as the demand requires. In this way he saves space and minimizes the number of torn or soiled packages which accumulate, and can arrange his storage facilities to prevent depreciation and waste.

When a separate factory is maintained, a great part of the saving comes from large-scale production. This method necessitates packing and warehousing, tho to a less extent than other manufacturers require, since the certainty of the outlet makes the plan for production more definite than those of the ordinary manufacturer. A complete stockkeeping system is maintained at the factory.

7. *Advertising and selling.*—The jobber who is to create and put on the market a brand of his own must

use the same sort of intensive advertising that the specialty manufacturer uses. Many jobbers feel that manufacturing furnishes the only way to save themselves from extinction. Such jobbers must take their places among aggressive advertisers, and that they are doing so is evidenced by the great amount of national advertising being used today by jobbers in national weeklies, farm papers, city dailies and country weeklies. But advertising must be followed up by the work of a force of specialty salesmen who handle the private brands only.

8. *Special terms.*—As a special inducement to encourage the purchase of his own brands, the manufacturing jobber usually offers longer terms of credit on them than he is willing to offer on other lines. He is making a correspondingly larger profit, either thru the saving resulting from manufacturing or thru his ability to get a higher price on his own lines. Moreover, in his capacity as manufacturer, it is not necessary to give long-term credit to his jobbing department. This saving can be passed along to the retailer. Since he is getting both a manufacturer's and a jobber's profit he has a wider margin on which to base his credit terms.

9. *Accounting and costkeeping.*—In either type of organization, there must be two separate sets of accounts; one for the jobbing business, and the other for the manufacturing business. When these activities are separated, the accounting system charges each unit with its respective expenses of doing business—

rent, salaries, light, heat, a proportionate cost of supervision on the part of those who divide their time between the two units, and any other expense which may be incurred for the particular department.

10. *Pricing goods to jobbing departments.*—When the factory is conducted as a separate unit, it is desirable to show a profit on its operation in addition to a surplus to cover depreciation on machinery and fluctuation in the cost of raw materials. Prices are based on the cost of manufacture and the conditions of competition in the line. Even then, however, it is not always easy to run the factory at a profit, as many manufacturing jobbers admit.

When each buyer does his own manufacturing, this is generally considered as a substitute for buying in the open market, and therefore no manufacturing profit is shown on the books. The goods are charged to the house at the cost of manufacture, including overhead and interest on capital invested. Any profit resulting from their sale to other jobbers is credited to the department concerned as a trading profit. However, the cost prices given to the salesmen represent the current market prices or perhaps a trifle less, rather than the actual cost figures. This method is entirely correct, because the salesman has no interest in the manufacturing and is therefore not entitled to any extra profits resulting from manufacturing. He represents only the marketing unit of the organization and must expect to work on a basis of average market prices.

11. *Definition of semi-jobber.*—The term semi-jobber is applied to a merchant who sells at retail as well as at wholesale. Most semi-jobbers have either added a retail business to an existing wholesale business, or a wholesale business to an existing retail business. In only a few cases did the merchant start out at the beginning to conduct both.

12. *Reasons for development of semi-jobbing business.*—Various reasons have led to the development of the semi-jobbing business. The prospect of the double profit furnishes a strong inducement to undertake both branches. The wholesaler who adds a retail branch to his business may wish to have a guaranteed outlet for his jobbing business, to conduct a service station for retailers, to try out new merchandise plans, and to dispose of odd or broken lots or any slow-selling stock.

The retailer who takes on the jobber's function may wish to render better service thru ready access to a wholesale stock, or may wish to establish agents thru his increased capacity to buy in jobbing quantities. The man who starts in business with both branches may be actuated by any of the above reasons.

13. *Organization.*—When the wholesale and retail departments are operated separately, as is the case in Marshall Field and Company, the plan of organization is similar to that of the manufacturing jobber who operates both factory and wholesale organizations as separate and distinct units. In cases in which a retail store is added to a growing wholesale business,

the retail function is frequently handled by the regular wholesale organization. The wholesale and retail stocks are not separated, nor does any other line of demarcation appear, except that represented by the keeping of separate accounts.

When the jobbing function has been added to a retail store, the wholesale business is usually handled by a special wholesale man. A separate set of accounts is kept for each of the two divisions. The wholesale man takes the wholesale customer to the department in which he is interested and, with the buyer of the department, shows the desired goods. Special prices are made by the buyer on each article, unless wholesale figures are made in advance. A wholesale business of this sort is conducted by John Wanamaker in connection with his retail stores in New York and Philadelphia.

In houses where either of these two types of organization is found, there may be a complete organization for both wholesale and retail. Generally, segregation begins with separate accounts; then comes a separate show room, and later a separate open stock for each, while each depends on the same buyers and the same reserve stocks. Next, the retail manager may feel the need of keeping his line complete by purchases elsewhere and thus eventually build his own buying force. In fact, in most of these organizations, such as Strawbridge and Clothier, Wholesale and Retail, Philadelphia, the retail buyers are not required to buy from the wholesale unit.

The third type of organization is used by the firm of Hammacher, Schlemmer and Company, New York. This firm has handled both wholesale and retail business since the founding of the house. A loose-leaf price list which gives both wholesale and retail prices is issued for use by the sales force. Certain of the retail salespeople are authorized to handle requests for wholesale terms, altho most of the wholesale business is done entirely by the wholesale department offices. Names of people entitled to wholesale prices are registered and full information necessary to the conduct of a wholesale business is maintained in order that the firm's dual activities may not overlap and cause confusion and ill-will toward the house.

14. *Stockkeeping.*—It is generally conceded that where both wholesale and retail lines of business are to be developed, it is best to run each stock independently of the other. In such a case two stocks are maintained. Sometimes the retail business depends upon the wholesale stock as a reserve. Both plans are likely to insure equally careful buying, for each stock is built up according to the special requirements which it must meet. There is also increased convenience in handling. Each division of the business can be held responsible for its own stock, whereas if both work from the same open stock, one is likely to blame the other for any failures to buy and keep the stock properly. If one division is merely an adjunct of the other, planned only to secure a little extra profit with-

out much expense, then only one stock should be maintained.

15. *Accounting.*—One of the most common causes of trouble in semi-jobbing comes from the lack of separate accounts. Frequently one department or the other is run at a loss, and sometimes the one which is really losing money is considered the more profitable.

16. *Pricing goods to retail store.*—The problem of fixing prices for the retail store is analogous to that of the manufacturing jobber. Shall the jobbing end of the business show a jobbing profit, or shall it be considered a part of the retail buying organization—a device to get quantity prices for a retail concern? If the jobbing work is to show a profit, full current market prices will be charged to the retail store. If no jobbing profit is desired, the actual cost of the merchandise is charged to the retail unit, and to this is added only the expense of operating the jobbing unit. Sometimes, too, the retail division is considered an outlet to the wholesale. In such a case the full receipts of the retail division are credited to the jobbing organization and against these is charged the expense of conducting the retail business, just as if it were a branch of the wholesale selling organization. In other words, this represents a direct selling expense against the wholesale business. In case the prices are made so as to show an intercompany profit in selling goods at retail, allowance must be made when mak-

ing up a consolidated balance sheet just as for a holding company.

REVIEW

Distinguish between the manufacturing jobber and the semi-jobber.

What reasons given by jobbers for engaging in manufacturing do you consider the best?

How is the business of the manufacturing jobber organized?

What causes do you assign for the development of the semi-jobbing business?

Why are separate accounts for the divisions of the business necessary?

CHAPTER X

COOPERATIVE JOBBING

1. *Basic reasons for the cooperative jobbing idea.*—A variety of causes have contributed to the existence of the group purchasing plan. The enormous development of department stores, chain stores and mail-order houses, in the last few years, has brought greatly intensified competition from the standpoint of the retailer, and especially of the comparatively small buyer. Retailers realize the necessity not alone of more efficient internal management in their own businesses, but of closer buying as well. The most obvious way to accomplish the latter was to get close to the manufacturer, secure the same quantity discount on purchases as the regular jobber could secure, maintain a central warehouse, and in this way eliminate a part of the jobber's selling expenses as well as appropriate all his profits.

Various minor circumstances added fuel to the flames. Retailers saw the chain stores buying direct from manufacturers at quantity prices or else from "friendly" jobbers who split commissions on large orders. The practice of many jobbing houses in allowing some latitude to salesmen in making prices has frequently led to discrimination. The salesmen got highest prices from their friends and lowest prices

from those who had the time and inclination to haggle. All of this forced many retailers to the conclusion that their salvation lay in closer buying and that the only way to buy closely was to band together and buy direct of the manufacturers.

2. *Behind cooperative jobbing.*—The idea back of the cooperative buying movement is to substitute the "pull" of the retailer thru his cooperative efforts for the "push" of the manufacturer or jobber. In this way the retailer appropriates the profit resulting to the jobber for obtaining his business, and equally the expense incurred by other wholesalers who strive for his business without obtaining it. The members base their activities on the assumption that the organization is more economical than an ordinary jobbing concern. The usual profits of the jobber are distributed as dividends among the stockholders in the cooperative concern, and among the buyers in the form of rebates or of lower prices on goods bought.

3. *Buying syndicates.*—The buying syndicate is a loose organization that does not attempt to supply its members with all their goods. The Nebraska Federation of Retailers is an example. The plan is to buy certain staples in carload lots, to be sold for cash to the members at cost price, plus a small charge for administration. Various modifications of the buying syndicate, or exchange, are to be found. One such organization in Chicago maintains a large exhibition hall in which manufacturers display their products. Retailers come to this central office and buy thru an

expert buying staff maintained by the organization. The organization charges each retailer who belongs to the exchange an annual fee of five dollars. Since the retailers themselves have no other financial interest in it, the organization cannot be considered truly cooperative.

4. *Cooperative manufacturing.*—Still another type of cooperative organization is found in such associations as the United Drug Company, which is owned by independent retailers thru stock subscription. The membership carries with it an exclusive agency for the Rexall line, but it also includes considerable control of the policies and operation of the business, as well as of the distribution of the profits. Furthermore, the United Drug Company handles only goods of its own manufacture or private brands made under contract. This company seems to the writer to be a cooperative manufacturing concern working thru a cooperative chain which acts as an exclusive agency rather than a buying syndicate.

The United Jewelers' Association is of the same sort, while the American Druggists' Syndicate differs in that a general jobbing business is added. Affiliated with such concerns are frequently several others of similar character, such as the United Merchants' Insurance Company, allied with the United Drug Company, which does the insurance business of Rexall stores on a cooperative basis.

5. *True cooperative jobbing.*—Cooperative jobbing, the third type of cooperative effort to replace

the jobber, exists when retailers organize a stock company, maintain a warehouse, and carry out all the functions of the jobber, with such limitations and savings as may be maintained thru organized cooperation. Such concerns are the Girard Grocery Company, of Philadelphia, and the Philadelphia Wholesale Drug Store.

6. *General plan of organization.*—While no two of these cooperative houses work in exactly the same way, their methods are fundamentally the same. The organization corresponds to that of a stock company. Great care must be exercised in the selection of members. The organizers, in their enthusiasm for the movement, may persuade many retailers to join, but the problem is to get those who will stay and make desirable working associates. Therefore, only those should be invited to join who are in thoro sympathy with the movement, and who are determined to see it thru. Members must be financially reliable and able to pay cash for goods. They must be willing to dispense with some of the services of the jobbers, particularly in the way of extensions of credit and service made possible thru the corporation of the jobber's salesmen. They must be conversant with the advantages and disadvantages of the cooperative method, and fully convinced that for them the advantages outweigh the disadvantages.

7. *Method of stock subscription.*—Various types of stock subscription are found. One organization requires each member to purchase five shares of stock at

one hundred dollars each. In case the member does not pay promptly for any goods bought, his stock may be sold and his membership canceled. After this initial purchase, which gives the membership privilege, the further purchase of stock is entirely at the option of the member. Generally all earnings above a moderate return on the stock subscriptions go to the members in the form of rebates on their purchases or in special prices on merchandise.

Slightly different is the method in one cooperative drug jobbing concern, as outlined in its constitution and by-laws:

> To become a member, it is necessary to pay a membership fee of $25, for which a certificate of membership is issued, which is transferable only by consent of the company.
>
> To enjoy the purchasing privileges of this company, it is further necessary for each member to carry a cash deposit with the company, which cash deposit shall be the equal of the average weekly purchases of said member, for which the company will issue a certificate of deposit.
>
> It is understood that the cash deposit cannot be used to pay an account except upon the surrender of the certificate of deposit, properly indorsed, and that thereupon the buying privilege of said member is revoked until the cash deposit shall have been restored, whereupon another certificate of deposit shall be issued.

In several concerns it is not felt necessary to have the members become stockholders in order to guarantee their loyalty. In the Cincinnati Economy Drug Company only one-third of the members are stockholders, yet the company gets as strong support from

non-stockholders as from stockholders. The stockholder simply gets a little extra profit from stock ownership; both get the same buying advantage.

8. *Voting power.*—Any cooperative institution is peculiarly susceptible to mismanagement. As a rule, in the cooperative jobbing organization only one vote is allowed each stockholder, irrespective of the amount of stock he owns. Under these circumstances the small retailer is inclined to feel that he has just as much authority in the matter of management as the larger retailer; and theoretically he should have. This ruling generally causes trouble because the small retailer usually is not so well informed or so good an executive as the man with large business interests. Cases even arise in which it would seem that the smaller retailer would like to penalize his larger associates for these larger interests. The experience of one well-known cooperative jobbing concern in the West is interesting.

> When we started this institution, we allowed one vote only to each stockholder, but on account of the interference of the small stockholder, and on account of the fact that men with capital would not invest, except in a very small way, we changed our by-laws so as to entitle each stockholder to one vote for each share of stock. We can and do vote cumulatively.

9. *Dividends.*—The savings after paying any rebates on sales, and after setting aside a part for reserves form the dividends. One concern, for example, pays 5 per cent on its common stock and 10

per cent on its preferred stock regularly. The dividends on the preferred stock are cash discounts; rebates from manufacturers, and any profit which may be made by advancing prices on the rising market, are taken as organization profits and therefore are used directly for distribution as dividends to stockholders, rather than as bonuses on purchases or as a basis for lowering prices.

10. *Manager and directors.*—The cooperative organization is peculiarly a "one-man" institution. As one authority in the hardware field has said:

> The success or failure of the formal cooperative jobbing organization depends entirely on the man at its head. Comparatively few of these organizations that spring up, actually grow; they invariably "run on the rocks" because of petty internal jealousies among the stockholders, as well as suspicion among the stockholders, or graft, discrimination, favoritism, etc., not only on the part of the internal management itself, but of the employes. It is evident that impartial treatment by the man at the head of the organization toward all its members is an absolute necessity.

11. *Buying advantage.*—The merchandise manager of the cooperative jobbing organization has a big advantage over the merchandise manager of the regular jobbing house. He has a regular and constant market practically assured. He knows this market thoroly. He can gauge closely the consumption capacity of both staple and seasonal goods thru the requirement lists supplied by members. Dealers send in their orders for seasonal goods considerably ahead of time and thus give the cooperative concern exact

figures on which to place orders with manufacturers. As a result, very little stock is carried over at the end of the season and there is little depreciation. The ordinary jobber can at best only estimate what the orders for seasonal goods are to be.

12. *Buying arrangements.*—The big problem is to establish satisfactory buying arrangements with manufacturers. Other jobbers try to prevent manufacturers from selling to associations, but the chief difficulty is the uncertainty of the future of the new organization. The mortality among cooperative concerns, both wholesale and retail, is so high that manufacturers are naturally skeptical. After the new organization establishes a good financial rating, few manufacturers will refuse to sell to it. In return, the manufacturer gets cash prices for his goods and an outlet which is not complicated as is usually the case with jobbers who engage in manufacturing and who have private brands of their own.

13. *Selection of merchandise.*—No attempt is made by the cooperative jobbing association to influence the retailers' selection of merchandise. Most cooperative concerns limit themselves to staple merchandise, generally the kinds known as nationally advertised brands. This is true especially of the drug and grocery lines, in which such brands occupy a big place. The association gathers lists of stocks carried by retailers, and then arranges to obtain each article from the manufacturers in jobbing quantities and at jobbing prices. In some cases, manufacturers have tried

to charge the cooperative jobbing concerns five per cent more than they charge regular jobbers. The cooperative concerns have made a point of taking all cash discounts, and this fact, together with possible competition from more encouraging manufacturers, has forced the skeptical sellers into line. The real problem of the cooperative jobbing concern is to keep in close touch with the market and the needs of the members. The concern must be able to supply promptly the goods the retailers want, when they want them, and to act as distributors of information on new merchandise so that the retailer may order by mail and receive satisfactory service.

Few manufacturers' goods are taken on a consignment basis. Cooperative organizations, for the most part, handle only commodities for which a consumer demand has already been created. Very few associations run private brands.

14. *Stockkeeping.*—A cooperative concern must be so well managed that stocks seldom run short; otherwise the member for whom "shorts" often occur will become disgusted and resign. A permanent inventory is maintained and this is checked monthly or, at the most, semi-annually to show any discrepancies. The manager can tell at a glance the exact state of the stock in any line, together with the maximum and minimum set for it and the sales for the day, week or season. A complete physical inventory is also taken semi-annually.

15. *Selling.*—Practically no advertising to con-

sumers is carried on by cooperative jobbing houses, since they do not, as a rule, undertake to put new manufactured goods upon the market. In some cases, a few salesmen are maintained. This expense of salesmen is reduced to a minimum in comparison with that of the elaborate selling organization maintained by some of the larger jobbers. Such salesmen as are employed are partly order-takers, partly business counselors. But for the most part this expense of keeping salesmen is eliminated by having the retailers order thru the mail, unless perchance it is possible for the retailer to call at the headquarters of the cooperative concern and make his selection in person. Booklets, catalogs, pamphlets and lists of price quotations are sent to the members periodically, and special lists whenever new arrangements are made with manufacturers or when special purchases are offered.

16. *Returned goods and exchanges.*—No allowances are made to members in connection with returned goods except for defects in manufacture. In some cooperative organizations there is an exchange arrangement. When one retailer finds himself overstocked, he communicates thru the central organization with other retailers and, if possible, unloads his surplus.

17. *Prices.*—The system of pricing varies. In some concerns the prices are the same as on the manufacturers' lists and the savings come to the retailer in the way of rebates at the end of the fiscal year, as well as in dividends. In others, prices are reduced to the

lowest possible figure. Any surplus savings at the end of the fiscal year are distributed in dividends. In concerns which allow non-members to purchase, current market prices are charged and no later benefits in the way of dividends or rebates accrue to them.

18. *Credits.*—Terms of payment differ in detail but all sales are practically on a cash basis. Some require payment weekly; some on the first and the fifteenth of each month; some on the tenth of the month for the previous month's purchases; some allow one or two per cent cash discount. Losses from bad debts are negligible. One concern says these losses have not amounted to more than one-fiftieth of one per cent for any year since the organization began business.

19. *Deliveries.*—Wherever possible drop shipments —that is, direct shipments from the manufacturer to the retailer—are required. When shipment is made from the cooperative associations' warerooms, the retailers have the choice of sending their own teams for them or of having the goods delivered by the cooperative company and the cost charged on the invoice. This emphasis on delivery expense encourages the member to group his purchases and avoid small shipments.

REVIEW

What economic conditions gave rise to group-purchasing?

Do you think that cooperative jobbing groups can do away with the function of the jobber? Would such a result be desirable?

How does the buying syndicate differ from true cooperative organizations?

How is the voting power in cooperative jobbing organizations usually determined?

Why have cooperative organizations not been notably successful?

What advantages has the cooperative jobbing organization which the jobber does not have? What disadvantages?

CHAPTER XI

SELLING AGENT AND FACTOR

1. *Necessity for many distributive agents.*—The problems of distribution are so intricate and the methods of meeting them so varied that there is plenty of room in the field for other wholesale middlemen besides the jobber. Some have been in the business field for many years, while others have begun operations only recently. Their existence is justified by the economic functions which they perform.

At one time the manufacturer's selling agent, the mill agent, the factor, the commission merchant and the broker had definite lines along which they worked, and to which they held rather closely. However, as many merchants in each class reached out for more business, for more power or for an opportunity to invest surplus funds, they began adding to their functions. Their original titles are still in use, with the result that there is much confusion in terms. For this reason it is impossible to lay down any hard and fast definitions which will apply in all cases. For example, many distributors who are called merchandise brokers, operate warehouses or lease storage space for keeping stock. Many take exclusive territorial selling rights, or handle a manufacturer's entire output.

In some cases goods are bought outright for resale. The broker may do any or all of these things without interfering with his ordinary brokerage business. He still calls himself a broker when, as a matter of fact, he has performed the functions which were originally attributed to at least three other types of middlemen.

Furthermore, the jobbing business is often combined with that of one or more of these other middlemen. So a man might call himself by any one of the titles, and that title might apply to one particular branch of his business, yet not cover the whole of it.

For the purposes of this chapter, the primary interpretation is given in every case, and the primary functions of each middleman are discussed separately. It will be found that the classification here used, together with that for the jobber, covers practically every form of the wholesale middleman's business.

2. *Manufacturer's selling agent.*—In the modern scheme of wholesale distribution, the manufacturer's selling agent has gained a position of considerable importance because of the volume of business which he is able to control. In some cases, the selling agent activities are limited to medium sized manufacturers who are not in a position to organize and operate their own sales organizations, or to the man just organizing a manufacturing business who does not feel capable of marketing his own product to the best advantage. His easiest course is to turn to one of the manufacturers' selling agencies.

Various instances can be cited, however, in which

large and well-established concerns depend on a selling agency to market their goods. This is true, for example, in such lines as hosiery, underwear and gloves, in which there are few large manufacturing concerns which operate their own sales organization.

3. *Compensation of selling agents.*—Usually a commission is allowed the selling agent on all goods he sells, with an extra commission when he guarantees the accounts. Other forms of payment, including monthly or yearly salaries, or percentages of profits, are sometimes used. Careful consideration must be given to the question of special selling expenses when the agreement with the agent is made out, for frequently trouble arises in this connection.

4. *Pricing.*—The principal considerations in the selling of the various classes of goods whose main characteristics are practically uniform are price and delivery. Usually the agent is furnished with a definite price scale so that the only decision he need make concerns the matter of delivery. Obviously, in such cases, the advantage over competitors lies with the agent who can give quick deliveries, and in some cases, with the one who can give the cheapest deliveries.

5. *Delivery and other expenses.*—In any case delivery charges are a part of the net cost to the buyer. So prices must be made accordingly if one is to get the business. Likewise, there must be corresponding compensation to the agent if he is to pay delivery charges, since these are selling expenses. In some lines allowance must be made for advertising expense,

or for the expense of specialty salesmen, or dealer service and the like. The manufacturer usually pays all such expenses.

6. *Sales agent's contract and authority.*—The actual relationship of manufacturer and selling agent is not, however, a development of modern times. It is purely a case of agency, the details of which have been made to conform with modern business conditions. The law provides that the selling agent shall have power to sell, that he may grant terms of credit, and that, ordinarily, he may warrant the quality of goods. In addition, he has all the special rights and obligations set forth in his contract, together with those that may be implied from the general customs of the business.

The length of the contract is determined by the fact that there is a point in the development of the sales volume beyond which it is more economical for the producer to market his own product than to have it done thru the sales agency.

7. *Two classes of selling agents.*—There are two distinct classes of sales agents. The first class consists of those who maintain their own warehouses, shipping accommodations and administrative departments. The warehousing sales agent carries a complete stock of the manufacturer's goods from which he makes shipments as orders are received thru his representatives. He also bills the goods and, in some instances, undertakes the collection of accounts and insures payment. In other words, he performs all

the functions of a trader, thus relieving the manufacturer of further concern after the goods are completed and consigned to the agent. This arrangement is particularly well adapted to certain commodities, such as groceries and dry goods, in which immediate shipment to dealers is essential.

The sales agent who does not maintain a warehouse sells only by sample. He does not make shipments to customers nor is he directly concerned with the billing or collection of accounts. His agency is limited to the primary function of selling; beyond that he has neither rights nor obligations. In most cases the sales agent accepts orders subject to the approval of his principal. The territory of the warehousing agent may extend over the entire country, or even thruout the world. The agent who has no warehousing facilities is frequently limited to one country, city or town.

8. *Services rendered by selling agent.*—The selling agent, to be successful, must be in a position to give efficient service. This is his great function which outweighs all other activities he may assume. Hence, he exerts every effort to maintain it, as the penalty for his failure is the termination of the agency by the manufacturer. What the service is, is governed by the business customs for different lines of goods. Sometimes it is necessary to maintain show rooms in each important city within the agent's territory. The Coast Products Company, which represents various manufacturers from the Pacific coast, in Missouri

and neighboring states, maintains in addition to the headquarters in St. Louis, branch warehouses in Des Moines, Omaha, Kansas City, Indianapolis, Minneapolis and Cincinnati, for only in that way can they render satisfactory service to clients, in competition with local jobbing houses.

The amount and type of service varies widely. One selling agent in the hardware trade represents forty manufacturers, yet no two of them receive identical service. For some, he is a warehousing sales agent, while for others, he stocks no goods. Sometimes he handles a line in only a part of his territory. Sometimes he collects accounts and in other cases he guarantees them. He prides himself on being able to serve any manufacturer in the way the manufacturer wishes to be served.

9. *Selling agent's organization.*—The organization of the sales agent varies from the one-man-and-a-desk type to the highly developed enterprise with its warehouses, selling departments, administrative offices and branch show rooms located at trade centers. The former needs no special mention in this connection except to suggest that, altho his organization is small, he nevertheless performs a valuable service in disposing of the product of the manufacturer. Such an agent is better able to offer this service than his largest competitor, especially to the smaller manufacturer, because of his close connection with the market and with his clients and because of his low overhead expense.

In the larger agencies, it is quite natural to expect that the personnel will be of a higher grade, that there will be greater specialization and, on the whole, greater efficiency than it is possible for the small manufacturer to maintain. The large volume of business insures low unit costs for any one of the manufacturer's accounts represented.

Whether or not the selling agent will survive the agitation against middlemen as a whole is a matter of some concern. It seems safe to assume that, inasmuch as he offers a valuable economic service, especially for small manufacturers, there is no good reason to expect a curtailment of his activities.

10. *Mill agent.*—The mill or factory agent has come to be known as an agent altho, in reality, his services are entirely those of a principal. The main point of distinction between him and other wholesale distributors is that he contracts to purchase outright the entire output of a mill or mills. Middlemen, such as the jobber, usually take over only sufficient stock to meet the needs of their trade. Commission merchants and brokers sometimes handle the entire output of certain mills or factories, but neither of them buys outright.

Since the work of the mill or factory agent is, in effect, to act as the selling organization of the manufacturer, it naturally follows that he will be a sales specialist. Thus, his main function is to create and to sustain a demand for the goods. In most cases he advertises them at his own expense, and in many cases

owns the trade-mark which they bear. As in the case of the manufacturer's selling agent, many points subject to discussion are settled in the contract between the parties. The nature of each contract is influenced by the particular conditions surrounding the case. Seldom are two such contracts alike.

From the viewpoint of the producer, the greatest advantage in this scheme of marketing is, that he has a convenient outlet for everything he manufactures and is not confronted with selling problems. On the other hand, he is often at a disadvantage thru inability to adjust prices readily so as to get the full benefit of favorable market fluctuations.

11. *Factor and his function.*—Until comparatively recently no adequate means to finance a manufacturing business have been available to one whose capital was limited and who did not have financial backing. Ordinary banks, in most cases, do not care to grant accommodations unless the credit instrument is secured by specific liens on tangible property. Even tho a business may be already earning substantial profits and may have a bright future, neither national nor state banks are in a position to grant loans of capital to carry on the desired business, since they are not allowed to invest in such loans to any great extent. In order to meet the requirements which the banks set, and to offer the kind of service demanded by growing enterprises, the factor established himself.

At law, there is little difference between the selling agent and the factor yet in practice the distinction

is sharp. The real function of the selling agent is to supply a sales organization, while that of the factor is to supply the capital necessary to carry on his clients' operations. Of necessity, the relation between factor and client is intimate and demands the factor's close supervision. The client is variously known as a department, account or annex of the factor—depending largely on the class of business in which he is engaged. For convenience here, the term client will be used thruout.

12. *Form of agreement.*—There is no standard form of agreement used by all factors. Terms are arranged to meet circumstances and are subject to bargaining by the parties. Usually the factor agrees to a standing loan, for which he charges interest, the security being the client's tangible assets. He also agrees to make immediate cash advances on all sales made by the client, subject to the factor's approval for credit responsibility. The amount varies from 60 to 80 per cent of the amount of the sale. The goods are billed in the name of the factor who is thus able to maintain control over the accounts and to make collections. When the customer's remittance is received, the factor deducts the amount of the advance made on that particular bill and a commission for use of money and for service rendered. The balance is then turned over to the client.

13. *Method of operation.*—The following is an illustration of the relationship between factor and client. A is factor for B, a manufacturer. Their

contract provides that on the sale of goods to a customer whose credit standing has been proved, A will advance 70 per cent of the invoice price; the remainder, after deducting 3 per cent for services and interest on money, is to be remitted on receipt of settlement from the customer. B makes a shipment of goods, valued at $1,000, to a customer in Philadelphia, on terms of net cash, 60 days—credit and terms having been approved by A. On receipt of notice of shipment, A advances to B, cash in the amount of $700. When the bill becomes due, the customer remits $1,000 to A, who deducts from this the $700 advanced, plus the $30 which represents his 3 per cent compensation and forwards the remaining $270 to B, thus closing the transaction.

It is the general purpose of the factor to relieve his clients of those activities outside the manufacture and marketing of the product. In some instances, the factor supplies a sales office situated in a desirable trade center. With it is provided heat, light and full insurance protection. Then, too, he may agree to attend to all the details of collecting accounts and may guarantee his client against any losses from bad debts. In practically every case, the billing of goods is attended to by the factor, and the book records are kept by him, thus relieving the client of much clerical work.

14. *Compensation of factor.*—The factor's compensation varies with the service rendered. In a case in which the service is limited to an advance on short-term accounts, the commission is sometimes less than

one per cent of the sale price. It may range as high as six per cent when the factor takes the functions of banker, landlord, credit insurer and selling agency.

There is little doubt that the factor is giving useful service in our present plan of marketing. This fact is borne out by the growing importance which he has assumed in recent years. However, the client's payment for financial accommodations include additional profit to the factor, and to that extent the manufacturer is handicapped in his effort to compete with those in stronger financial circumstances. With the coming of trade acceptances, the need for factors is likely to diminish in lines in which prime commerical paper would arise from the transactions which could be rediscounted at a Federal Reserve bank.

15. *Factor's organization.*—Whenever it can be conveniently arranged, the factor endeavors to have his clients in the building in which his own office is located. Sometimes a modern loft building is provided in the center of a wholesale district, and the floor space is apportioned according to the requirements of the individual clients.

A very complete credit department is conducted by the factor so that with close supervision it is possible to keep at a minimum losses from bad debts. A factor sometimes represents forty or fifty clients. If each of these were to operate his own credit and collection department, individual profits would be reduced. The services of credit information bureaus, collection agencies, and a force of credit investigators

are essential to every well-conducted business, but the operating cost of such agencies is high. When this is apportioned among forty or fifty concerns, the individual expense is greatly reduced. Moreover, the type of credit and collection service rendered by the factor is probably higher than that which the clients would be able to maintain individually. In fact, as a rule, the factors in any line have the most complete credit files of any concerns interested in the line.

REVIEW

What conditions in distribution account for the presence of wholesale middlemen other than the jobber?

What do you understand to be the function of the sales agent? Of the mill agent? Of the factor?

What value have these functions?

Are these types of middlemen likely to continue?

CHAPTER XII

COMMISSION MERCHANT AND BROKER

1. *Necessity for the commission merchant.*—For certain lines of raw and intermediate products it is not easy for the producer to find a market. Producers are scattered widely and the market fluctuates from hour to hour. Consequently, at market centers a type of wholesale middleman has developed who receives consignments of goods and sells them as an agent. His knowledge of market prices and conditions enables him, as a rule, to make better deals than his principal could. This man is the commission merchant.

The lines in which commission merchants are most commonly employed include textiles, grains, cotton and chemicals. Formerly, a large percentage of farm produce was handled in this way but, during recent years, commission men have not been able to get enough farm produce on consignment to supply their regular trade, and so have been forced to go out and buy like any regular jobber.

Even in the four lines just mentioned, commission merchants are coming to have connections besides their regular commission business. Many white goods commission houses trade to some extent on their own account. In the chemical business most of the

foreign manufacturers sell thru American commission houses, but many of these same commission merchants own their own chemical factories and their own warehouses. There are few grain or textile commission men who have not some connection with elevators or warehouses.

2. *Activities and compensation of commission merchants.*—Some commission merchants guarantee collections on the sales, and are known as *del credere* commission merchants. In so doing they are approaching the function of the factor.

Unless there is a special allowance for brokerage, the commission man pays all selling costs out of his commission, but such expenses as storage, handling and insurance of the goods while in his possession, are charged to the principal for whom the commission man acts. The commission merchant makes collections and fixes terms and prices within the limits of his instructions from his principal. In all cases, he is bound to obey the instructions of his principal and, like any other agent, is liable for any damages suffered from his failure to do so. He can depart from such instructions only to protect himself from loss on his own advances or disbursements, or to meet some other emergency.

3. *Commission merchants and manufacturers' agent.*—The commission merchant differs from the manufacturer's selling agent both in his legal status and in his method of accounting. The manufacturer's agent is as his name indicates, a sales agent, working

under the direct orders of his principal. The manufacturer dictates classes and terms of credit and fixes prices. Within the scope of his agency, the agent binds the manufacturer absolutely but does not assume any individual liability. Goods shipped to him on consignment remain the property of the manufacturer, who must bear all risks.

The commission merchant, on the other hand, is more independent. Altho the consignments which he receives are not his property, nevertheless, thru force of custom, he provides for storage and insurance. He is usually given wide range in fixing prices and terms, and is responsible for the payment of customers' accounts.

4. *Commission merchants and factors.*—Manufacturers frequently obtain advances from the commission merchants thru sight drafts drawn against consignments up to sixty or seventy per cent of the current market value. Commission merchants also frequently discount bills receivable for merchandise already sold on time. In doing this, the commission merchant becomes in effect a factor or commercial banker.

5. *Rates of commission.*—Rates of commission vary greatly with different lines of business and even with different houses in the same line. The points that enter into the calculation are the prestige of the house, whether the accounts are to be guaranteed, whether an allowance is to be made for brokerage, and whether

the commission house must assume all storage and handling charges. Five per cent is a common rate of commission for chemicals; ten per cent is sometimes paid in certain textiles. When brokerage is allowed, the commission is two or three per cent because, in such cases, the commission is practically clear profit. In addition to this, an allowance is granted for storing, insuring and otherwise caring for the goods from the time they are shipped until the time they are delivered to the retailer or consumer. This allowance is no small item, and often equals the commission charge.

6. *Commission contracts.*—The care which must be exercised in drawing up a contract with a commission house depends largely upon the reputation of the house. A responsible concern offers to the consignor many privileges and courtesies not specified in the contract and, in general, looks after his interests. But it is possible to do business with safety even with a concern which has no great reputation, provided every question likely to arise is covered by the agreement. Not all the items mentioned in the following discussion are necessary in every contract, but most of them should be included. The general rule is to provide in the agreement for every question on which there is any possibility of a difference of opinion.

Transportation—Charges for transportation should be supported by the original bills of lading of the carrier. It is wise to prepay all transportation

charges on consignment shipments and to provide in the contract that no transportation charges shall be allowed.

Storage—The commission house will probably insist that it is to be allowed usual storage rates. When possible, the consignor should stipulate that charges shall be the exact cost to the commission man. It is well to provide also for a maximum storage charge for storage periods so that goods may not accumulate charges indefinitely.

Cartage—It is fair to agree upon a certain cartage rate of a definite amount per package, or per hundredweight, regardless of whether the commission house operates its own trucks or not. Sometimes cartage charges are waived.

Insurance—Definite insurance rates should be specified. Commission merchants generally carry a blanket policy on all consignments. This furnishes the basis for a fair insurance charge to each client.

Repacking and handling—Whenever possible, the manufacturer should ship all his goods in marketable packages, and in such assortments as are demanded by the commission house's customers. This seldom involves additional expense on the part of the manufacturer, yet it permits him to provide definitely that there shall be no allowance for handling or repacking. When shipping in packages ready for market is impracticable, the parties should reach an agreement as to just what repacking will be required and what the repacking will cost. Consignors to commission

houses in foreign countries should give this point special attention.

Selling price and terms—When there is an established market price it can be provided, if desired, that all sales shall be at market rates or shall be not less than 90 per cent of the market rates. It is common to provide that usual terms of credit of the particular line of business will be allowed.

Guarantee of accounts—When operations are conducted on a *del credere* commission basis, there should be a definite agreement that the commission house will guarantee the prompt payment of all accounts with its customers. Unless this exists the commission house probably could not be held responsible for poor accounts. The agreement should include, also, an understanding that the manufacturer shall be required to make no allowance or give any other special consideration for such guarantee.

Amount of commission—The rate of commission, based upon the selling price, rather than on the cost price, should of course be stated.

Monthly settlements—It is well to specify that irrespective of terms allowed to customers, all sales are to be accounted for and the net proceeds are to be payable by the tenth of the month following. This provision gives considerable protection, and is of value in accounting properly for consignment goods.

Brokerage—Brokerage is designed to cover the cost of selling. An allowance for brokerage is paid only when the commission rate is small. When possible, it

should be specified that the commission is to cover all selling expenses, and that no further allowance for such expenses shall be made.

The parties should agree upon a definite territory in which the commission merchant is to operate, establish definite allowances for traveling and salesmen's expenses for each town or city in that territory, and specify just what expenses are to be included under the general heading "selling expenses." It is well to specify further that the total brokerage allowance, on any sale, shall not exceed a stated percentage of the selling price.

Regular audits—The manufacturer has the right to audit the accounts and records of the commission dealer at least twice a year. Whether this provision should be enforced or not can then depend upon the reliability of the commission dealer.

7. *Organization.*—The organization of a commission house usually consists of three main divisions under one general management—banking and finance, accounting, and sales. The banking division attends to all investments and arranges loans and advances to the mills. The accounting division is subdivided into three departments: the office department which handles correspondence, orders, collections, bookkeeping and all similar work; the credit department which passes on all questions of the credit of customers; the statistical department which keeps all records, including salesmen's records, production records, price rec-

ords and all other statistics which are useful in operating the business. The sales department is sometimes split up into as many departments as there are different lines of goods. In such a case, the head of each particular department interprets market quotations and fixes prices, subject in most cases to confirmation by the mill. A further division in this department is sometimes made when the commission house operates out-of-town branches. Traveling salesmen usually operate for the home office in the territory surrounding the branch.

8. *Operating a commission house.*—The various operations of the commission merchant are seen more clearly from this example taken from the cotton trade. It is customary for the commission house to utilize the entire output of the mills for which it acts. If this were not the case the mill might be put in the position of competing against itself.

In cases in which the commission merchant does not receive the goods in actual possession, they are shipped direct to the customer from the mill, but are billed to the commission merchant, who, in turn, bills them to the customer. This virtually amounts to a consignment of the goods as they come under the control of the commission merchant as soon as they are ready for the market and are subject to his shipping directions. This method effects an economy in re-packing, storage and delivery charges. Goods are sold F.O.B. the mill, with freight allowances to the city where the

commission merchant has his office. In this way, title passes to the buyer at the mill and the risks of transportation are his.

In cotton-goods lines which use raw materials listed on one of the various exchanges, with constantly fluctuating prices, the commission merchant, on receipt of a large order, wires to the mill either before or at the time of accepting the business so that the mill may at once provide the raw materials at a price comparable with the price obtained for the finished products. To prevent an absolute loss it is customary to hedge.

Prices are quoted by the commission house but limits may be set by the mills. The commission house usually knows the approximate cost of production in order that it may not go below a figure which will insure a proper margin of profit. The mill also controls prices in cases where the demand and supply are far from equal. For example, in certain kinds of cotton goods, the mill may be sold up to full capacity for some time. In such cases, since for various reasons it would be undesirable to take the goods entirely off the market, it is necessary for the commission house to quote prices so high as to be practically prohibitive. Conversely, when there is an overstock, the commission house may be instructed to quote prices lower than would be allowable or possible under ordinary conditions.

In many cases in which the mills would otherwise have insufficient capital, either to operate at full ca-

pacity or to take advantage of low figures in the fluctuating prices of materials, advances are made by the commission house. These may be charged against goods on consignment, bills receivable, or any other good security. The usual amount of such a loan is about 75 per cent of the value of the security. Often there is a fixed loan to the mill by the commission house, with the additional stipulation of advances to be made against goods as soon as they are manufactured and consigned. In such cases, the commission merchant becomes also a factor, tho he still continues to be designated as a commission merchant.

The average commission allowed in the cotton trade is about 4 per cent, which covers all selling costs, with an additional 1 per cent to the commission house for guaranteeing accounts. About 75 per cent of the manufacturers of cotton goods in this country sell thru commission merchants.

9. *Export commission houses.*—There are over six hundred export houses in New York City and over two hundred more listed in other American ports. The majority of these may be properly called export commission houses, but they do business in such a variety of ways that it is well-nigh impossible to give a hard and fast definition of their activities which would be accurate and comprehensive. The fact that these houses buy and pay for goods which they order from manufacturers, is, in itself, misleading. Originally the definition of an export commission house included only American firms which received orders

from foreign customers and executed them, charging a commission for this service. Now, however, these houses have branched out into numerous other related activities. The bulk of their business is on a commission basis, but some also do business as merchants, while the majority handle American agencies to the extent of their ability. More detailed information on export commission houses will be found in the Text on "Foreign Trade and Shipping."

10. *Necessity for the merchandise broker.*—In such lines as canned goods, the producer is averse to sending his goods to a commission merchant to be sold. He feels that he must have either a sales force of his own to market his goods, or else enlist the services of some salesman who operates on his own responsibility. If the amount of business will not warrant organizing his own sales force, he offers the goods to the brokers in his line. On the other hand, several large and well-established manufacturing concerns, such as the Campbell Soup Company, operate thru merchandise brokers rather than thru a sales department of their own.

11. *Function of the broker.*—In the strictest sense of the term, a broker is an agent or middleman whose business it is to make a bargain for another, or to bring persons together to bargain. He may act in the interest of either the buyer or the seller, but not for both, unless by their common consent. Compensation for his services is made in the form of a commission based on the selling price of the merchandise.

12. *Commission merchants and brokers.*—There are two main differences between the merchandise broker and the commission merchant. The broker usually does not have possession of the merchandise, and he deals in the name of his principal; the commission merchant, on the contrary, usually does have possession of the property under a consignment title, and deals in his own name in all cases. The commission merchant uses a regular bill of sale on which his own name appears; the broker gives a memorandum of the transaction, while his principal usually does the actual billing.

13. *Extent of merchandise brokerage.*—Brokers are found most commonly in lines such as fruits, coffee and other food products. Recently there have been a number of instances in which the sale of manufactured food products have been turned over to brokers while the amount of merchandise brokerage seems to be on the increase.

This may be accounted for by the fact that the brokerage house is composed of specialists in each line. As a general rule, a broker operates in a much larger field than any other form of middleman and, for this reason, is in a better position to make a general survey of the market than any other wholesale middleman. He can, therefore, often get better prices and make better deals for his principal than any other type of middleman since he may deal anywhere within the limit of his principal's interest.

14. *Broker's contract.*—Usually, no formal con-

tract between manufacturer and merchandise broker is drawn up, since it is understood that the broker acts as an agent for and in the name of the principal. Ordinarily the broker has no authority to receive payment for property sold by him, and if payment is made to him by the purchaser, it is at the purchaser's risk, unless under some special circumstances, authority to receive such payment can be conferred. The principal fixes all terms and prices, and makes all collections.

15. *Broker's commission.*—This varies according to the particular line of business in which the broker is engaged. There are many brokers who specialize in certain lines of merchandise and do not deal in other lines. Commissions, in such cases, are governed by the custom of the trade. For example, the usual brokerage on bulk olives is 1½ per cent and on bottled olives 5 per cent.

16. *Broker's organization and operating method.*—In a typical merchandise brokerage organization there is a broker for each principal line and in addition a few clerks and bookkeepers to keep track of the commissions. Some of the most successful brokers operate alone and do not have even desk room. They go back and forth between the manufacturers and the buyers for jobbing houses, looking for good lots to offer and likewise good purchase needs to satisfy. When a buyer authorizes a broker to bid a price to a manufacturer, the broker does so at once by telephone or telegraph. If the manufacturer accepts

the bid, the broker makes out a memorandum of sales as an agent and then a claim for commission. Once this is done, he has no further connection with the transaction. But he is not sure of his commission until the goods are actually delivered and paid for, as cancellations are frequent. Legally, he should be able to collect his commission if he has received a bona fide order, but few brokers feel that it is wise to do so. This might offend the manufacturer so that he would not accept future bids from the broker.

REVIEW

What economic conditions account for the development of the commission business?

How does the function of the commission merchant differ from that of the selling agent? Of the factor? Of the merchandise broker?

What provisions is it desirable to include in a contract with a commission house?

Assume that you are a commission merchant for the cotton goods trade. The mill for which you operate has not sufficient capital to take advantage of low prices on raw materials. How would you secure a loan made to the mill? Under what circumstances would you consider it wise to make a permanent loan?

Assume that you are a mill owner who sells thru a commission house. When would you quote prohibitive prices?

How does the merchandise broker carry on his business?

What is you idea of an export commission house?

PART II

RETAIL MERCHANDISING

RETAIL MERCHANDISING

CHAPTER I

THE SELLING FIELD

1. *Old merchandising methods.*—A few years ago the man who had failed as a farmer or a preacher or a lawyer, often opened a store, for it was commonly supposed that anyone of average intelligence could "run a store." It was comparatively easy to do so then, when manufacturers were wrestling with the problems of production and the country was so prosperous that the demand increased faster than the competition. But with the advent of keen competition among merchants who analyzed and planned, those who did not do so soon began to lose business. Today thousands of old-time storekeepers who have continued in their old ways do not make the wages of a day-laborer. This type of storekeeper cannot outlive its generation.

The credit for the beginning of modern merchandising methods must be given largely to the department stores. Recently the mail-order houses and the chain stores have been doing even more intensive work. Now manufacturers, jobbers and advertising associations have taken a hand and, in cooperation with wide-awake, independent retailers, are doing exceed-

ingly good work. For instance, the jobbers and manufacturers of several cities, such as St. Paul, Minnesota; Council Bluffs, Iowa; St. Joseph, Missouri, have united to make a careful survey of the retail field in which they operate. A number of manufacturers like Kirkman and Sons, soap makers of Brooklyn, New York, have tackled the job independently, and several allied organizations—among them the Associated Advertising Clubs of the World—have organized retail service bureaus to do analytical and constructive work of this sort. Every group dependent on the retailer for the final distribution of its goods realizes the necessity of cooperation; and cooperation must begin with a careful analysis of each retail field.

2. *Retailer must analyze territory and competition.*—As far as the retailer himself is concerned, no efforts on the part of manufacturers, jobbers and allied organizations can take the place of his own analysis, much as they may help him. The retailer must know his selling territory and his competition in exactly the same way in which the manufacturer or the jobber does. It is only on the basis of the facts which he finds that he can make his plans for organizing and conducting his business. The experience of the most successful retail organizations, the chain stores, the department stores and the mail-order houses, as well as that of the wide-awake independent retailers furnishes indisputable evidence of this fact.

3. *General store as a type.*—In Part I of this Text,

the general treatment was from the standpoint of the ordinary jobber, the modifications necessary in other types of wholesaling being added in separate chapters. It seems advisable to use the same method in treating retail merchandising, and the departmentized general store which is in reality a small department store, has been chosen as the most suitable type for the general discussion of the different retail functions. The modifications necessary for specialty stores, large department stores, chain stores, mail-order houses and co-operative stores will be given in the last four chapters. Many of these, however, are applicable to stores of other types.

4. *Reason for opening the store.*—Before any store is established there should be a reason for its existence —a reason sufficient to warrant the risk of the venture. An analysis of the selling field and of the competition will prove whether or not the venture is justified and, if it is, will make possible the formulation of definite store plans and policies. Frequently preliminary plans are found to be entirely wrong when the analysis is completed. The idea of starting the store is given up unless the plan be changed to meet the requirements of existing conditions. Chain stores almost invariably succeed, because they are carefully planned in advance on a basis of a complete survey of conditions. They find a way of serving the community better than others have done and this is the final proof of success.

5. *Analysis of population.*—As soon as a merchant

begins business, he secures as much information as possible concerning the population of that city or village and of the immediate vicinity. Naturally the best source of information is the latest census. In some states a census is taken every five or six years. Valuable data are often obtained from local and school censuses. Supplementary sources, however, are frequently available; for instance, local newspapers may have information concerning their immediate communities. Generally, the retail section of the local chamber of commerce is of assistance.

In rural communities, the farm papers give information about resources and conditions. For instance, the *Farmer's Review,* which circulates mainly in central Illinois, has made a careful survey, under the supervision of E. B. Moon, a merchant of long experience and a trained investigator, of retailing conditions from the standpoint of the village and rural sections of their territory, particularly as to the average size of the neighboring farms and families and the consuming power of each community. In this connection, it is interesting to note, as an example of the general principles resulting from such surveys, that where the farms are comparatively large, the consuming power is not as great as in a territory of smaller farms, because the smaller the farms, the greater the number of people, the more diversified are the wants, the greater is the community spirit, and the less inclined are the people to have accounts with the big department store in the city. A general store

often fails in a territory forty-two miles square which contains only large farms; several stores may flourish in a territory of the same size if the farms are small. The owners of big farms have the city, not the country viewpoint. But the country merchant must operate his store in accordance with the normal demand of his community. The small farmer is not interested in extreme styles. He wants good merchandise, but not necessarily well-known goods, altho from reading his farm papers he knows what those goods are. It is of the utmost importance that a merchant inform himself in regard to facts and conditions of this kind, in order that he may be able to judge accurately as to the possibilities of success in any given community.

6. *Division of population into classes.*—After a merchant has secured these figures in regard to the number of people in each section in the neighborhood of the proposed store, his first step is to divide the population into groups in order to judge their buying capacity. The classification generally includes the following classes: those who earn their living in factories; those who are dependent on agriculture; those connected with wholesale and retail establishments, professional men, and a miscellaneous group which may, in turn, be subdivided if it includes enough of any one class to warrant further classification.

The next step is to analyze the manufacturing class —the first group—in order to ascertain how many wage scales are represented, how large the families of the workers are and such matters as the likelihood of

strikes. The buying capacity of each sub-group is estimated, and constitutes a part of the total sales possible for the store. In like manner, other groups are checked up. The large chain stores have definite outlines of questions to be answered, the results of which are tabulated by the investigators. Of course, results vary widely with different kinds of stores and different sections of the country, and usually a special outline of the investigation is developed for each city.

Similarly, the trading territory must be analyzed according to all other factors; for instance, Italians do not buy hearty foods, and therefore they do not make as good customers for a grocer as Germans or Irish. Sectional traits have a strong influence. The requirements of people in the South, and especially their tastes, vary from those of similar classes in the North or West.

This same principle of scientific analysis can be applied with good effect in the determination of the possibilities of better retail service, and an analysis of the trade zone will prove valuable to the management of any country general store. Since per capita consumption figures on many staple and specialty products are available, the local merchant can estimate for himself with considerable accuracy the trade possibilities of the line of merchandise that he carries. If his trade zone consists primarily of small farms, with many families and many laborers, and if diversified rather than single crop farming is done, he will have a better and bigger market for provisions and gen-

eral equipment than he would have if the farms were large and the number of persons fewer. He can also develop his business on a cash basis. Dairy farmers get cash for milk every two weeks. Those who raise hogs are able to market them at least four times a year. But the grain farmer has only one harvest; therefore, in the grain belt there is greater necessity of doing a credit business.

7. *Other sources of trade.*—It behooves every merchant to give careful consideration to the possibilities of suburban and rural as well as of local trade. Such an analysis includes transportation facilities, such as train frequency, rates of fare and ease of access from the terminus to the store. People come to smaller cities and to villages, by automobile. If the roads are not so good as those leading to the stores of competitors, the firm should use its influence to have them improved. The estimated volume of suburban trade should be added to the estimate of the local trade. If a mail-order business is to be attempted, a separate estimate must be made of the prospective trade in that line. Most stores do not attempt a campaign of this sort, however, until their business has become firmly established.

8. *Studying competitors.*—The average retailer buys an old store or starts a new one without making more than a casual, off-hand estimate of the competition that he will have to meet. He "gets a hunch" that the competition is not worth considering, and so he does not take the trouble to make a scientific analy-

sis of the actual conditions. Anyone familiar with conditions in many villages and small cities will recall the result when a new store is opened and is obliged to compete with the efficient stores that already are more than capable of supplying the needs of the community. Of course the firms that have been long established may be forced out, but more frequently it is the new concern that succumbs.

The analysis to be made for any store is naturally determined by the type of stores—department, chain, specialty, neighborhood or mail-order. The relative advantages and disadvantages of the various kinds of stores are discussed in the Text on "Marketing Methods," and therefore need not be treated here in detail. It is sufficient to say that if a new store is to succeed, it must have special advantages to enable it to meet the competition that exists. It cannot create business to any great extent; it must get the bulk of its business from the stores already organized and therefore must have very valid reasons for its existence against such competition.

A good example of a firm's analysis of a prospective situation is the case of the dry-goods chain of the First National Stores, a chain of dry-goods stores operating in cities of 5,000 to 20,000, and it is interesting because these new stores must compete mainly with general stores, as in communities of this size general stores are the common type. The company chose such cities because the competition is less severe in them than in larger cities, where department stores

flourish, or in smaller communities, where the mail-order houses secure the greater portion of the business.

In selecting cities of this size—there are thousands of them in the United States—they first chose those in which the sources of income were about evenly divided between agriculture and manufacturing and then selected from these the cities in which competition seemed least severe.

Their analysis, of course, included each individual store in the cities investigated. First was collected all the data available from such reporting concerns as Dun's and Bradstreet's. Then all the information possible concerning every merchant was gathered, even to details in regard to fraternal and family connections. The past history and the business policies of every store were checked up, and the good-will value of each was estimated. Finally, the present effectiveness of each store's methods was tested by an efficient "shopper," who for a considerable time played the rôle of an actual customer.

9. *Large department store as a competitor.*—From the standpoint of competing strength the general store which is departmentized need fear little more from a department store of the same size than from another general store; for there is, in reality, little difference in their inherent advantages or method of operation. But when the department store is much larger, the competition takes on a different aspect. Sometimes the competing store is in the same com-

munity but, more frequently, it is in a large neighboring city.

In sizing up a large department store as a competitor, a beginning is made by tabulating the usual advantages of operation that such a store possesses as compared with those of a smaller general store. This will include first, the effect of size, convenience, advertising power, buying power and the like. Then there will be the offsetting disadvantages of high cost of operation as compared with the economy of the smaller stores, the liability of giving poor service because of the number of customers to be accommodated, the lack of contact between the proprietors and the clerks, and many other drawbacks that few large stores have been able to rid themselves of entirely. The new store must estimate its own ability against such competition. At the same time, the ability of stores already organized to improve their service under the stimulus of increased competition must not be neglected. Some will be found ready to imitate the new store's methods while others will settle down to decay.

10. *Chain store as a competitor.*—In planning to compete with a chain store, the management must first make as thoro an analysis of the selling field as the chain store made, and must also evolve store policies and store methods as efficient as the chain store has. Next, it is necessary to study advantages peculiar to chain stores.

The usual advantages of the chain stores, in effec-

tive organization, in location of their stores, in buying efficiency, in frequency of turnover, in standard practices and efficient selling methods, resulting from the training of the sales force, should be reckoned as elements of efficiency of the competing chain store. At the same time allowance should be made for the high operating overhead, which of necessity goes with the intensive type of chain-store organization and supervision. A few so-called chains keep down the overhead by eliminating many features of central supervision, but these concerns can hardly be called chains. They are really groups of independent stores working thru a cooperative buying syndicate.

11. *Competition with mail-order houses.*—Few stores attempt to ascertain the amount of competition to be expected from mail-order houses. They are more concerned with the reason for the loss of business to local merchants thru such competition, and this is the correct attitude when it leads to constructive measures. One should be fully cognizant of the advantages of the mail-order competitor: the completeness of stocks in all lines carried, the assumed lower cost of the mail-order method of selling, the convenience to rural people in shopping by mail, the advantage of buying ready-to-wear garments directly from a metropolitan store, the clearness and accuracy of catalog descriptions of merchandise, and the advantage in getting things which have not been seen in a local store by one's neighbors. In measuring the competition, however, allowance should also be made for

the handicaps in the mail-order method which are to the advantage of the local retailer.

12. *Learning from competitors.*—The proper view is, that competition is always an advantage. Many merchants have learned modern methods of retailing from a new chain store, and have come to realize the wisdom of giving a clear and complete description of their goods, from mail-order catalogs. Numbers of small stores are operating mail-order departments which secure more business from their radius of operation than any mail-order house ever obtained from a territory of the same size with similar lines of merchandise.

REVIEW

Who originated modern merchandising methods? What are the manufacturers, jobbers, etc., doing to aid cooperation?

Why should each retail field be analyzed? What are the fundamental points of the analysis; in a general store; a chain store?

What are the sources of information? What groups are analyzed? Is a knowledge of the per capita consumption of goods advantageous? How are methods made to conform to conditions?

Give two views on selecting a location and deciding the rent to be paid. What is the policy of department stores; of specialty shops; drug stores; cigar stores?

Why should competition be scientifically considered? Outline the method pursued by one dry-goods chain.

What are the advantages and the disadvantages of competition in department stores; chain stores; mail-order houses? What may the merchant learn from mail-order competitive methods?

CHAPTER II

MERCHANDISING POLICIES

1. *Necessity for statement of business policies.*—Every retailer who is about to open a new store wonders what stand he should take in regard to such troublesome questions as cut-price competition, selling goods on credit, the disposition of slow-selling stocks, the settlement of complaints and the many other problems that arise daily in every store. Frequently, the merchant is so busy fixing up his store and buying his stock that he leaves all such questions to be settled when they come up. The result is disastrous. In the midst of the first busy morning, a request for credit is made by someone of doubtful credit standing, and the method used in settling that one case is allowed to determine the store's policy. The result is likely to be bad, for the decision has been made under stress and, while it may have been a good one for the particular case, it ought not to serve as a basis for the store's permanent credit policy.

2. *Two kinds of policies.*—As in wholesale merchandising, there are policies that affect the customer, and those that affect the employes of the store. In this chapter we shall confine ourselves to a discussion

of the first kind, leaving the treatment of house policies until Chapter IV, which deals with the operation of the business.

3. *Class of trade.*—The proprietor of a high-grade shoe store in a city of about one hundred thousand, situated near the Ohio River, recently made the following interesting comment concerning the relation of the store policy to the class of trade:

> I didn't realize until today what a business policy is. Yesterday a poor colored woman came into my store, and the clerk, a young Southerner, refused to wait on her; so I fitted her myself. Then I told my clerks that while our store ought not to cater to colored people because our lines were of too high a grade, I felt we ought to treat every one, black or white, courteously. With a little thought we could see to it that any one who entered our store was offered the nearest thing possible to their needs and desires, without at the same time encouraging trade unfitted to our store. Frankly, I don't want the colored trade, because so few colored people can afford our shoes, and the few who could, would drive away many of the well-to-do in our section who are our logical customers.
>
> So I instructed the clerks to do their best to serve well every person who honored us with an offer of their patronage, but not to encourage those who should naturally trade at some other type of store. Among these I include the people of all nationalities, Italians as well as negroes, who should buy more moderate-priced shoes than we carry, or can afford to carry in an expensively equipped store in a high-class neighborhood. You see I was deciding a business policy, altho I did not realize it at the moment. Hereafter my clerks will have a rule by which to conduct our business, so far as the class of trade to whom we cater is concerned.

A store exists for the public; not the public for

the store. Only in small communities can one store cater to all classes of trade. Therefore, after having decided on the clientele desired, it is the duty of the management to study the needs and wishes of the group selected, in order that the store may prove by means of adequate service its right to exist, and may prosper because it serves a section or a class better than its competitors do.

In rural communities and in small cities, the class lines are not so sharply drawn; in fact, any division that is made is likely to be based upon sections rather than upon classes. The general store in the rural community must be merchandised for average customers, who constitute a large majority, leaving the occasional customers, who can afford the novelties and exclusive lines, to obtain such goods by a shopping excursion to a nearby city.

4. *The big appeal.*—After the class of trade has been selected, the store must find its best appeal. This appeal must be based upon price, service or quality of merchandise, for these are the principal assets of the store. Will the clientele demand goods of fair quality at competitive prices, but not expect a great deal of service, or will they demand that both goods and service be of the highest quality and be willing to pay accordingly?

Recently the proprietor of a small general store came to the decision that his customers would be satisfied with less expensive service than he was giving them, and would prefer lower prices. He

found he could cut down his prices about five per cent if he moved to a cheaper location and reduced the expense of delivery and other services. He did move, and now he is making price his "big appeal" and is competing successfully with the chain store across the street and the department store in the neighboring city.

But too many merchants make the mistake of thinking that "price" is the only appeal. In their opinion the purpose of advertising is to sell goods at a cut price. To the average retailer, the appeal of "money's worth," or money value in quality goods, seems stronger and more convincing than either a service or a quality appeal.

Few country storekeepers realize that they are making their main appeal for business along special lines. If they would take the trouble to find out who their customers are and what it is that has secured their trade, they could readily locate their "big appeal" and use it much more intelligently and effectively.

5. *Buying policies.*—First in importance, after knowing the quality of merchandise desired, is the question of nationally advertised, as against unbranded, goods. In order to decide upon a policy, it is only necessary for the merchant to compare the relative advantages of these two kinds in the light of his trade requirements. Generally the country storekeeper succeeds best with nationally advertised brands; the same is true of the specialty shop in the

city until it becomes firmly established. Of course it is possible to sell unbranded goods or goods with private brands on the strength of the shop's standing, but some of the best specialty shops, even when they do this, use the name of a nationally known manufacturer as well as their own. Good merchants will succeed under either policy, provided other things are in harmony, but no merchant will succeed who mixes different policies indiscriminately.

6. *Maintenance of prices.*—Price maintenance is one of the most important questions before the average retailer today. Every merchant must size up his own situation, and in the light of its advantages and disadvantages, determine his price policy, especially with reference to branded articles. He is a wise merchant who can find a way to keep out of cut-rate competition.

Firms that feel it necessary to meet the cut-rate prices of competitors, have a policy of making the reduction when at least two other representative concerns cut prices. Others start a back-fire at once by making a leader of some article. Frequently, firms that maintain advertised prices on branded articles run unbranded goods as leaders at a cut price. Again, it is customary to meet cut prices by appealing to manufacturers for goods for a special sale on a basis that will not represent a loss to the retailer. Sometimes cut-rate competition is met by using a loss-leader—that is, an article which is sold purposely at a loss. In this way, the advantage of a bargain is ob-

tained without demoralizing the sale for staple goods. For the retailer who adopts the policy of maintaining prices on standard staple goods, the whole problem resolves itself into one of finding ways of meeting price competition and of taking advantage of the element of low prices as a selling appeal, without demoralizing his sale of staple articles, on which the merchandising foundation of his business is laid. Above all things, a merchant should have definite policies and hold to them.

Some stores prefer lines that they can control exclusively—lines on which they can always maintain the price. Then they meet competitors' prices on brands or grades of goods which both carry, but maintain the price on lines which they control themselves. This is a twofold advantage for it offers the opportunity to use both the quality and the price appeal in the advertising.

7. *Slow-selling systems.*—Retailers have long since realized the wisdom of keeping themselves informed in regard to the age of each group of stock. In lines like millinery, it is customary to check over the stock at least every week; some merchants check it every day. Seasonal millinery more than a fortnight old is considered slow-selling, and means must be taken to dispose of it.

Some of the various methods are: To hold a special sale; to reduce the price of the goods; and to give a commission or a bonus to the salespersons who succeed in selling them. The most common of the

commission methods is the so-called P.M. (premium money system), which provides a definite bonus on each article. It is an established fact that a fifty-cent P.M. will do more than a two-dollar reduction in price to move the twenty-dollar women's ready-to-wear suit that is overstaying its time. If the customer learns of the circumstances, she is likely to feel resentment, even tho she may have obtained a good bargain. Therefore, it is doubtful whether this system should be used, for it does not pay to have secret practices in any business. Furthermore, the system is open to easy abuse. It should be used only in a few lines like clothing, and then only when the goods are entirely desirable and are slow-moving because of over purchase or some other fault of the retailer. There are plenty of other methods—such as the concentration of sales efforts, special advertising and the like—which do not involve the disadvantages of the system just described, and which most retailers are finding preferable, even tho they require more thought and effort.

8. *Returned goods and refunds.*—The policy among retail merchants to refund in full for goods returned is now so well established that it is difficult to realize that the wisdom of it was ever open to question. Yet it was only a few decades ago that the "your-money-back-if-you-want-it" policy came into vogue. It has done more than anything else, except possibly the one-price policy, to remove the consumer's old-time suspicion concerning merchandising methods and establish confidence and good-

will. Furthermore, it has a tendency to prevent shopping around unnecessarily. The customer need not hesitate and put off the decision until later if he feels reasonably certain of selection and knows at the same time that if his decision should prove a mistake he may, within a set time, return the purchase for exchange value or a refund.

It is only to be expected, however, that such a policy should lead to some abuse. Frequently a customer orders a number of expensive rugs, only to return them a few days later after using them during some social event at his home; fortunately, however, not everyone resorts to small practices of this kind. It seems, however, to be the storekeeper's lot to be imposed on occasionally, just as it is that of every other man in business. In some cities, groups of people—sometimes organizations like the chamber of commerce—have taken steps to narrow the time limit and to restrict the kind and amount of merchandise that may be returned. In other cities the merchants have conducted a general campaign in which they have appealed directly to the public for justice in this respect. In still other localities individual retailers have adopted different measures of various kinds. For instance, one women's ready-to-wear shop, in delivering garments, sends a fitter who makes it a point to see that the customer is satisfied. No returns are allowed after the goods have been fitted and accepted in the customer's own home, except, of course, in the case of imperfections. But in general, any strict preven-

tive measures are likely to drive away more than enough business to cover the occasional losses from returns. Therefore, a liberal policy of credit for return within a few days and at the current price when received, is the best policy. The merchant who wants to succeed must remember that he is selling more than mere merchandise—he is selling satisfaction.

9. *Credit policy.*—It is natural to suppose that most retailers who do not succeed can attribute their failure to unwise credits to their customers. This, however, is not true; only four or five per cent of the failures are due directly to that cause. The credit system costs money, but at the same time it decreases the amount of shopping that the customer must do, and increases the amount of sales to one customer. The woman who has established a charge account with a general merchant trades at his store regularly, but the one who pays cash generally wanders around shopping from one store to another, buying a few of her items at each store and increasing the selling expense of each. It is an established fact that the average of sales, to each person who enters both the general store and the department store, is much higher among those stores that have charge systems than among those that operate entirely on a cash basis. It is sufficient to note here that the retailer should consider every phase of credit-giving as it affects his community, his class of trade, his line and his competition, and then formulate his policy accordingly.

10. *Adjustments.*—The day of whining and de-

layed settlement of "complaints," as they are called, is over, and in its place has come the modern adjustment policy. "The customer is always right," said Marshall Field. He meant that the customer is right in expecting a prompt investigation of the facts, and then an equally prompt adjustment satisfactory to the customer or a refund of the amount in full. In one store, statistics show that 75 per cent of the complaints are due to mistakes or misunderstandings on the part of the customer. Yet the customer is right in reporting what seems to him faulty, and storekeepers should be anxious to have faults reported. The customer who nurses a grievance and does not give the store an opportunity to clear up the misunderstanding is the one who is really hard to handle. On the other hand, the man who complains bitterly and then receives satisfaction, frequently proves a most loyal friend of the store. Therefore it appears to be good business for a merchant to allow himself to be imposed upon occasionally.

One of the best statements of a liberal policy is that of a certain concern which handles men's clothing. The firm have in their store a placard stating that if their clothing proves unsatisfactory, they will allow the customer the purchase price of the goods returned toward a new garment, and will deduct only what the customer feels is a fair allowance for the use already obtained. In this way they satisfy the customer without demoralizing their business by using an irregular and unbusinesslike policy of adjustment.

Some merchants think that a policy as liberal as this is impracticable, but there is plenty of evidence to show that it can be successfully followed.

11. *Deliveries.*—The decision as to whether or not a delivery system is necessary will depend on the class of trade, the line handled, the custom of the community and the size of the town. Many country stores, that formerly had no delivery system, have installed one in recent years. The tendency seems to confirm the statement of the late J. J. Hill, that the trouble of modern life is the cost of high living rather than the high cost of living. As long as people continue to demand delivery service, the retailer, as their servant, must continue to give them what they want.

A good delivery system has an advertising value as well as a service value. Customers like to have their goods delivered by neatly uniformed boys from spic and span automobiles, and they are apparently willing to bear the expense involved. Conversely, some stores, generally of the cheaper grade, engage a separate concern to handle their deliveries realizing that customers do not wish to have it known that they trade at a cheap store. Others combine and adopt a cooperative delivery system. In any event, the delivery system should be governed by a definite policy, and it should provide for the solution of such incidental problems as the handling of goods other than purchases, as an accommodation, and special and irregular deliveries.

12. *Store creed.*—Certain portions of the store's

policies should be constantly before each employe and likewise before the public.

The following statement, which is incorporated in one of the advertisements of John Wanamaker, is an example:

THE WANAMAKER CONCEPTION OF A GREAT STORE'S DUTY TO ITS PUBLIC

To gather conveniently under one roof all the world's multitudinous products, for personal wear and the furnishing of the home. To select them with expert care and wise discrimination—buying always the best, but buying with such knowledge and judgment that the merchandise may always be sold at the lowest possible price.

Keeping constantly in stock the staple merchandise in general demand, but assuming the greater duty of sending our buyers into strange places and over little-traveled roads, seeking for the new and different things not found in the usual channels of trade.

Always seeking to do a better thing than has been done. Working aggressively with manufacturers to have merchandise better made, or manufacturing conditions improved. To place orders conveniently, so that economics in the cost of production may be secured for our public. To develop constantly newer and better styles, and yet have them produced at prices usually lower than equal qualities in commonplace designs.

Recognizing the fact that errors will creep in to blight the best intentions, in a great institution that depends upon human heads and hands, many of which must be constantly newly trained; but always regarding each fault as monstrous until cured, so that continued error cannot exist.

Providing a store service that is polite, intelligent, prompt, and efficient, to make shopping here as pleasant as it is satisfying. Recognizing the fact that good morals and good manners are of as much importance as good merchandising,

that the customer's comfort and convenience deserve first thought, and that nothing but perfect satisfaction ever seals a sale.

To do every minute the utmost that we know, as the experience of almost half a century has taught, sparing no pains or expense where service or facilities can be improved. To do the best that is known today, and still seek for the better tomorrow and do it.

REVIEW

Why is a settled credit policy necessary? How do large organizations teach the store policies to the employes?

How does a firm cultivate the class of trade desired? What customers does the country general store seek to obtain?

On what bases, beside price, may the store rest its main appeal? Discuss the value of such appeals?

Compare the advantages of nationally advertised and private brand goods.

What is the change in opinion concerning the turnover? What is the modern idea of the proper service of the store to the public? Is it advisable to carry a full stock?

Give the advantages and disadvantages of price maintenance. What is a "loss-leader"? How is cut-price competition met?

Discuss several methods of disposing of slow selling goods. What are the advantages of the returned-goods and refund system? How may it be abused?

What are the gains from a credit system? What are the advantages of discounting purchase invoices?

How are "complaints" treated today? In what ways is a delivery system valuable?

Discuss the creeds of the Marshall Field and Wanamaker stores and apply them to small stores. How may they be brought to the attention of the employes?

CHAPTER III

ORGANIZING AND FINANCING THE STORE

1. *Meaning of efficient organization.*—For some years past we have heard much of efficiency and of efficient methods of organization. In factory, store and office in essence they are the same—specialization to the highest possible degree. With specialization comes a study of methods of work for the purpose of discovering the simplest and most direct. Next comes the setting of standards of quality and quantity, together with a scientific selection of workers; then a systematic training of these workers and a study of working conditions in order that employers may help employes to attain the standard. Finally, an impetus toward the desired goal is furnished in the form of financial reward, commendation or promotion to all who increase their efficiency.

That such methods are applicable in a retail store as in a factory or office is proved beyond a doubt by the examples of such stores as Marshall Field and Company and William Filene's Sons Company. Nor is the use of efficiency methods limited to the use of large stores. Hundreds of small stores, such as Garver Brothers in Strassburg, Ohio, have become just as efficient relatively as the two large ones just

mentioned. Great size, because of the working conditions that it involves is, in reality, a handicap. The so-called "small merchant" is in such close touch with all phases of his business that he is in a much better position than his large competitor when it comes to the matter of efficient supervision.

The principles of organization need not be restated here. Efficient organization in a retail store, irrespective of its kind or size, means the effective coordination of all the separate factors involved in the operation of the business. The store which best serves the people on whom it depends for business can be depended upon to yield a satisfactory net profit.

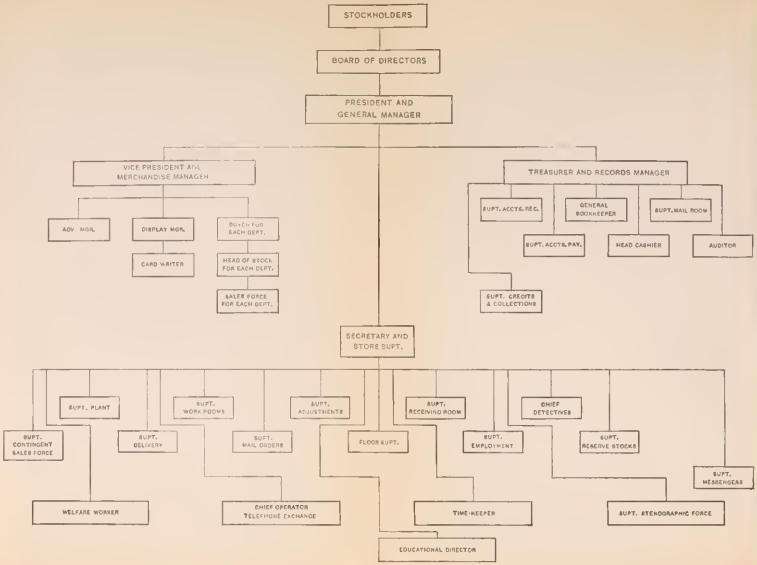
Then, too, efficient organization implies efficient management. A general manager, who is free to rise above the details of operation and view the store and its several parts as a whole, seeks to improve his organization according to the laws of balance and proportion. His duty is to see to it that each part of his organization pulls its full share of the load at a minimum expense. Thus it is difficult in this discussion to differentiate the terms organization, operation and management. The main point is that efficient operation is impossible without efficient organization as well as efficient management.

2. *Functionalizing the business.*—The first task in studying the organization of any business is to classify the work according to its different functions. The average business readily lends itself to the usual

classification which includes the four functions of production or buying, finance, marketing or selling and accounting. In the case of the wholesale house, as we found, there is some modification of this division, and the same is true of the retail concern. The modification in the latter instance does not consist in the omission of certain usual functions, but in a redistribution of emphasis so that sometimes a single function is divided between two departments of the business, while in other cases a major department may not quite cover a single function. In small concerns, there may be no division of the functions; the proprietor himself may look after all four functions of the business. But in any case, be the business large or small, and irrespective of the personnel of the store, it will be found that the four main functions are always present.

3. *Departmentizing the business.*—Department stores have taught all other types of retailers the value of departmentizing the business. This is especially true of general stores. As a matter of fact, the general stores which are not yet departmentized are rapidly becoming so, for only thru such means can the merchant be sure which lines of merchandise are profitable and which are not. Yet such departmentization should not be carried to the same degree in all general stores. It may be said that in any general store doing a business of $100,000 a year, the records necessary to keep track of the business by depart-

ORGANIZATION CHART FOR A CITY DEPARTMENT STORE



ments, should not require more than one hour daily of one clerk, in addition to the usual time given to the store's records before departmentization. Counting this clerical expense and the expense for the extra record forms and books required, the amount directly chargeable to the departmentization should not cost more than a few hundred dollars a year, and the advantages resulting are certain to be worth many times that amount.

4. *Organization chart.*—The division of a retail business into functions may be readily understood from the attached organization chart of a city department store. In this concern, the president is also the general manager. The vice-president is merchandise manager, in charge of all buying. The treasurer is records manager in charge of accounting; and the secretary the store superintendent. In the general store any one or more of these divisions may be combined with others, so that in some stores we find the general manager, the sole owner and supervisor of the business.

5. *General manager.*—The merchant is the general manager. He is either the owner, the principal partner or a stockholder of the business; or in some cases, he is the representative of the owner. As general manager, he has the responsibility that the name of the office implies; and except in very large stores, he is in direct charge of one or more functions. As the merchandising is the most difficult work in the store, the general manager usually supervises it.

In a very small store, the general manager personally looks after all the functions—buys the merchandise, employs and trains the store force, and acts as floor-walker. But as the store grows in size, the general manager must train others to look after some of the phases of the store's work, and must himself give his time to the solution of the larger problems of management. Yet a good general manager finds time to work daily with his sales force. No man can run a store successfully simply by the examination of records and statistics.

6. *Financing a store.*—Financing a retail store is a simple matter compared to financing a wholesale house, because of the smaller volume of business, the larger working margin and the willingness of jobbers and manufacturers to assist any worthy retail enterprise. Generally, the merchant has sufficient capital to buy a small stock, and if he buys carefully and runs his store with reasonable efficiency he should be able to turn over his stock by the time his merchandise statements become due. John Wanamaker began with twenty-four dollars, and many merchants with the cooperation of wholesalers, have founded a big business on even less. Yet it is well to remember that the percentage of failures in the retail business is high, and about twenty-nine per cent of all failures, according to Bradstreet's, are due to a lack of capital. Even more, however, are due to incompetence. Every large wholesale house can point to a considerable number of prosperous and successful retail con-

cerns founded with very small capital, with which they have cooperated. Any honest man who knows merchandise and merchandising can obtain help in founding a retail store, provided the location and the general conditions are favorable.

7. *Financial budget.*—Business men have been classified as the hard workers and the hard thinkers. The hard worker plunges in and does a thing and then figures out afterward how it might have been done better. The hard thinker, on the other hand, plans first how a thing should be done and then works according to the plan. The hard worker frequently has a moderate success because he accomplishes so much by hard work during long hours that it makes up for his lack or insufficiency of planning. The hard thinker gains profit from every bit of his hard work because he has made no blundering mistakes that drag down his net results. This type of business man in the retail store makes up an operating financial budget at the beginning of each season, and if he has the required merchandising ability and works hard enough, he will find it possible to merchandise his store in advance according to the plan he himself has made rather than to merchandise it from day to day according to guesswork and snap decisions.

On the page following is a summary of a budget for a general store in a city of twenty thousand, with a total trading population, including suburbs and farming sections, of about thirty-five thousand. This summary is made up from the detailed budgets

of each selling department of the store. In the departmental budgets, purchase limits are set by months of the season, as are also limits of sales and expenses. To the records of each month, the actual records of the corresponding month of the preceding year are added. Allowance is here made for special sales events in any department, such as a possible March houseware sale in the house-furnishing department. Expenses for each department are also subdivided to show direct sales expense, department and general overhead, allowance for advertising, displays, delivery and the like—every kind of expense is divided among the months of the season. The same is true of the non-selling departments, for they also have financial operating budgets. The general financial budget is a summary of all departmental budgets.

SUMMARY OF FINANCIAL BUDGET

FOR

A GENERAL STORE

(DEPARTMENTIZED)

SPRING SEASON OF 1917

Location—Middle West City of 20,000 Population; Trading Population of 35,000

Total expected sales for 6 months, at retail	$200,000
Capital investment in common stock (dividends declared semi-annually at end of each season)	100,000
Average merchandise investment at cost	75,000
Fixtures	15,000
Cash for working assets	10,000
Other funds as required from time to time obtained of bankers.	
Mark-up (gross profit) desired, at retail	25%
Stock at beginning of period at cost (market value)	75,000
Stock at beginning of period at retail (market value)	100,000
Purchases during the six-month period, at cost	150,000
Purchases during the six-month period, at retail	200,000
Stock desired at end of period, at retail	75,000

Maximum stock limit during period, at retail	125,000
Average stock during period, at retail	100,000
Gross sales, at retail	200,000
Gross profits, at retail	50,000
Per cent gross profit, at retail	25%
Expected salary expense	12,350
Other expenses	26,950
Total expenses	39,300
Per cent of expenses on sales at retail	20.15%
Net profits on sales	9,700
Per cent of net profit on sales	4.85%
Cash discounts taken	6,500
Interest paid on money borrowed at the bank to discount bills and to take care of extra financial requirements beyond capital invested in business. (An average of $25,000 during the six-month period, at 6%)	750
Net gain on discounts over interest paid	5,750
Total profits earned by store during period	16,450
Reserve set aside for depreciation on fixtures, losses on collections and for surplus fund	11,450
Net earning available for dividends to stockholders	5,000
Rate of dividend to be declared	5% for 6 months

8. *Counting room.*—The cash is received and handled by the cashiers. Their duties are considered a part of the general clerical work of the store. The financing of the store is carried on thru the counting room. Here the funds are received from the cashiers and are deposited in the bank. Payrolls as well as all bills for merchandise and supplies are here made up and paid.

The head of the counting room is generally the president of the business.

The treasurer knows from purchase records the total amount due for payment of merchandise bought from day to day, and can, therefore, plan the distribution of his funds so as to pay the bills and at the same time take advantage of cash discounts. He works with the buyers and the merchandise manager, if there is one, to arrange purchases so as to make payment

dates as convenient as possible from a financial standpoint.

Since the credit and collection departments involve financial functions, they should be under the supervision of the person in charge of the financial division.

REVIEW

Is functional management applicable in the conduct of a retail store?

Describe the organization chart given as an illustration.

Why is it easier to finance a retail store than a wholesale establishment?

What are the salient points of the budget given on pages 206 and 207?

CHAPTER IV

OPERATING AND RECORDING THE BUSINESS

1. *Necessity for operating function.*—After planning the general organization and financing of the business, the next task is to arrange for the store building and equipment, the layout of the different departments and to engage the sales and clerical force needed to sell and deliver the goods. The buying will be handled by the merchandise organization, and the records by the records manager in his department. The remaining employes, consisting of salespeople and all the other employes not directly connected with financing, buying and records are included in the operating division of the business. In the average store, fully ninety per cent of the total number of employes are in this division.

2. *Superintendent.*—The work of organizing and supervising this force, as well as taking care of the building and equipment, is the task of the superintendent. His relation to the business as a whole will be noticed by referring to the organization chart facing page 203. In many stores, he has general supervision over all clerical employes even tho they may be assigned to duty in the financial, buying or recording divisions. He is responsible for the training of

employes and for the physical conditions under which they work. He also develops the internal store policies and rules, builds up the store system and is responsible for its successful operation.

3. *Choosing the store site.*—A choice location in the best part of the retail center is required for a general store as it is for a department store, if it caters to quality trade. If the appeal is one of price, a cheaper location is more suitable. A definite limit for rent should be set, proportional to the expected volume of business, and then the best location at the price should be obtained. In a city, the question of transportation facilities is a serious factor. In a rural section, accessibility to suburban trolleys is important. A strong merchandising organization never hesitates to locate next to another store. Competition is often of an advantage. It brings all shoppers to a given locality and the best merchant gets the cream of the business.

4. *Store building.*—All physical equipment has its practical utility and its psychological effect. A certain type of store building or store front is advisable primarily on account of its suggestive value. For example, a store which occupies the first floor of a big building among other smaller buildings, impresses the public as being a big store; whereas the same amount of floor space in a building by itself would seem small in comparison, especially if the floor space were spread over two stories as against one story for the store in the big building. The impression of bigness may not always be advantageous; but where it

is, a big building might be desirable, even tho the upper stories are occupied by other tenants. In a big building, the opportunity to get additional space as the growth of business may require, is usually open.

5. *Store front.*—There is both a utilitarian and a psychological value to the store front. If it is old-fashioned and unattractive, prospective customers are disposed to think that the stock of merchandise must likewise be out-of-date and the service poor. To spend money in remodeling an old store front is usually a good investment. When one general merchant was asked the reason for his success, he pointed to a freshly-painted store front and said, "A couple of gallons of good paint twice a year—that's the reason." He meant, of course, that a clean, bright store front all the year round typified the cause of his success. Many people judge the character of the store by the appearance of its front. Therefore, it should be modeled to give as nearly as possible the impression the merchant desires his store to make in the public mind.

6. *Heat, light and ventilation.*—Proper light and heat should be figured out scientifically. The local electric light company will gladly give the services of one of their engineers for the purpose of collaborating with the store superintendent in working out the proper illumination of the store. This problem is too important to be solved by guesswork, and therefore the wise store superintendent should secure all the expert assistance he can command. Various organizations, such as the Extension Division of the

University of Iowa, have prepared excellent pamphlets on the subject, for the use of those who cannot readily get the assistance of an engineer experienced in store lighting. The problems of heating and ventilation should also be given like careful attention.

7. *Store equipment.*—The equipment of the store has also both utility and suggestive value. There is what might be called service equipment as contrasted with selling equipment. By service equipment is meant that which serves the convenience of customers or employes but is not used in the operation of the business. It is often a difficult question to determine how much service equipment, such as rest rooms, hospital rooms, telephone booths, and so on should be provided. Such equipment tends to bring women into the store and keep them there for longer periods. For this reason large stores provide restaurants, rest rooms and entertainment in order that shoppers may stay the greater part of the day and shop without becoming fatigued. Such stores claim that service of this kind increases the amount of sales per person as well as the number of customers, so that selling expenses are reduced. There is probably much truth in this contention, since in retailing, sales are made by indirect means rather than by the direct sales efforts of the clerks alone.

It is easier to decide on the installation of selling equipment. This will be governed by the size and type of the store as well as by the financial strength of the organization. For instance, a cash register is

generally recognized as necessary in any kind of a store. Even for the young man with only a few hundred dollars with which to start a neighborhood store, it is a necessary piece of equipment. It would probably pay for itself from the start for reasons known by every merchant today.

8. *Standards in equipment.*—The merchant should determine the general standard of equipment to be used in his store, and then maintain it. Uniformity in quality, design and color of equipment is essential. A store that is equipped with a varied assortment of styles in shelving and show cases conveys a confused impression. Uniformity of style and finish of fixtures and equipment add tone to any store. To secure this result the equipment need not be expensive. In one of the most successful chains of stores the total cost of standard equipment for each store is less than a thousand dollars, yet it is as attractive and as satisfying as fixtures costing a great deal more.

Few stores are sufficiently equipped for convenience. In most cases, no matter how well planned the fixtures and other equipment may be in a new store, additions and changes soon become desirable. Merchants, however, are inclined to let temporary inconvenience and expense of improvement postpone the big permanent gain in convenience and profit. In this respect, the chain-store systems such as the United Cigar Stores Company, set an excellent example of convenience in equipment.

Equipment is designed to protect the merchandise, to aid in systematic stockkeeping, to display merchandise, and to make a favorable impression on customers. Extra expenditure on fixtures for protecting perishable goods, or goods easily soiled or goods of great value, is nearly always advisable if the line is a permanent part of the stock. The modern cases in which are kept stocks of men's ready-to-wear clothing, for example, pay for themselves over and over. They save time thru systematic stockkeeping, and aid in selling by keeping the merchandise in perfect condition.

The best fixture or equipment of any kind is the one that best meets the four purposes just mentioned, cost considered. Which purpose should be emphasized in case all of them cannot be attained, or in case one must be gained at the expense of the other—protection interfering with display, for example—depends of course on the goods and conditions peculiar to each store. Inexpensive waists for women are displayed in open cases where they may be readily examined by the chance passer-by, while expensive waists must be kept in glass cases or in stock boxes. In the first example the display value predominates, while in the next the protective value.

9. *Organization of the personnel.*—Anyone willing to take advice and with plenty of funds at his disposal can organize the physical equipment of a store. He has only to study other stores, consult with the experts on the staff of manufacturers of

store equipment and spend the money. But when it comes to building up the human equipment the task is not so easily accomplished. The superintendent of a store devotes the greater portion of his time to the selection and training of new employes, to the establishing of high standards for old employes and to the general building up of the human machine.

Special attention must be given to the contributory factors in this work such as store rules and policies, wages, bonuses, promotions, transfers, working conditions and the like.

10. *Employing new clerks.*—In every store of any size, the superintendent must give a good part of his time to employment work. Each applicant should be checked against an ideal or standard set for the employment work in each department. Mental and physical tests are frequently added. Too much attention cannot be given to this work, for the loss thru "floaters" and those who fail, is much greater than the expense of careful selection in the first place. The average period of employment in general stores usually is less than a year, yet some stores have been able to raise the average to two or three years. If the statement is correct that the average expense of engaging a new clerk and training the clerk up to the point of earning his or her salary is fifty dollars, then the loss from turning over the whole force more than once a year is a very heavy drain on the business.

11. *Training and welfare work.*—The work of

training the new employes is considered in a later chapter. The welfare work must be such as to aid the employe in doing the best for himself and for the firm. It begins with proper working conditions. There is no reason, for instance, why stools or chairs should not be provided for salespeople in order that they may rest when not occupied with selling or stock-keeping. But it must go further. In large stores lunches are furnished and a place is provided for rest or recreation during the noon hour. Employes often assume an obligation to cooperate in recreational and social activities outside of office hours. Assistance in case of illness or need also represents an opportunity in the way of welfare work. In any case such work should not be patronizing, but should always be a part of the effort of the employer to cooperate with, and thus help his employes, in order that both may work together to better advantage to secure personal as well as business benefits. The small merchant can do better welfare work than his large competitor, because he is close to the employe and knows both the opportunity and the best method to secure desired results. The less splurge and the more quiet, sincere interest and cooperation, the greater the value of welfare work.

12. *Wage systems.*—We all work for wages; and we all think we are entitled to more than we get, whether it comes to us indirectly in the form of profits as proprietors of our own business or directly as employes of another. A great variety of wage systems

have been tried by retailers but all are dependent on one principle. The wage must be proportionate to the profit accruing to the proprietor from the work of the wage-earners.

In order to get at this scientifically, it is necessary to find the per cent of profit from the sale of goods handled by the clerk in question, and then the profit to the store can be figured. Probably the best wage system is one in which a beginning salary based on the profit is set in each line. In one store in which the minimum wage is $8.00 weekly, except for the junior employes such as messenger boys and stock girls, the beginning wage in the millinery department is $9.00 a week and the clerk is expected to sell at least $300 worth of goods a week. For all sales over this amount a commission of two per cent is paid, while the clerk remains on the salary of $9.00. When the clerk's salary is increased to $10.00 the sales quota is raised to $350, while the commission for all sales beyond the increased quota remains the same, two per cent.

Various quotas and in fact modifications of the system are made in other lines. In men's clothing, for instance, a straight salary is paid weekly and at the end of each season each clerk's sales are totaled and commissions are figured at five per cent. In departments like bargain basements, the commission is usually 2½ to 3½ per cent with settlements weekly instead of at the end of the season. This is due to the difference in the type of salespeople. The salesmen

in the men's clothing department will work for a longer period under the impetus of a bonus system than the young women in the basement.

The object of a bonus and premium system of wage payment should always be to increase salaries to each individual without increasing the percentage of sales expense. In the working of the system both the employer and the employe strive to improve the store efficiency and both share in the profit; the one in increased salary and the other in increased volume of business with lower pro rata expense.

Salary advances should be automatic. The unexpected increase is always twice as effective as the one asked for. But the salary is not the only reward. Every store superintendent should promote his people as rapidly as possible to more responsible work. And for this purpose he should have a definite line of promotion for each employe. The better job ahead, to be secured when it is earned, is the greatest possible stimulus to good work. The record of each clerk's efficiency is kept by the superintendent, and also the record of his or her educational training.

13. *Floor and aisle managers.*—On each floor of a large store the superintendent has an immediate assistant in the floor manager, and under him are several aisle managers or floorwalkers. They supervise the sales force, settle minor complaints, direct customers, take care of their section of the building, follow up promises of future delivery, countersign with the buyer returns for credit or refund, and gen-

erally perform the work of a superintendent for their immediate section of the store.

14. *Inspectors and wrappers.*—In large stores it is necessary to follow out unit operations and this work is done by the inspectors and wrappers. The former check the goods to see if the quantity is correct, compare it with the sales slip, receive the cash if it is a cash transaction or send the sales slip to the credit department if it is a charge sale. Then, if there is a separate person to wrap the goods, the inspector passes it on for wrapping. In large departments there may be inspector, cashier and wrapper, while in a small one all three functions may be combined in one. Again, in the small general store all three operations may be dispensed with, the salesperson doing everything. There are advantages in both the inspector and the clerk-wrapping system. At the time of writing, the tendency seems toward the latter system because of the delay when goods must pass thru so many hands after being sold. The whole problem of recording and delivering merchandise is a troublesome one. The average sales clerk spends too much time in making out the sales slip and doing other non-selling work. Some day, perhaps, someone will invent a system which will be simpler and yet carry with it the same advantages for recording the sale correctly. It is one of the most serious problems in retailing today.

15. *Delivery service.*—Much money can be saved by careful organization of the delivery service, when deliveries are made. Definite schedules and routes

are possible even in the small store with a single delivery wagon. If the customers of a store understand a merchant's schedule of delivery and know that he will maintain it, they will adapt their requests and expectations to it. The merchant himself often makes a mistake when he accedes to an unreasonable request for delivery.

Deliveries are always expensive unless they are thoroly systematized. The more frequent they are from any one store, the easier it is to establish an economical system which will keep the cost of delivery per item within reasonable bounds. This advantage is multiplied in a cooperative delivery plan; but such plans are successful only when conducted under efficient management. The plan is, however, economically sound, and whenever a cooperative system has failed it has usually been due to poor management.

16. *Records manager.*—As a store increases in size it is necessary to put more authority on individuals. From such a development an official known as the records man or the office manager has arisen. He has charge of bookkeeping, auditing, statistical work, cost finding and everything pertaining to the records of the business. In a small store he keeps the stock records. Keeping track of purchases and of sales to customers is a simple matter, calling for only a knowledge of elementary bookkeeping. The work of auditing the sales slips to verify prices and extensions, does not call for special treatment. But the task of keeping track of the various departmental

purchases, expenses and sales in order to show the real progress and present conditions of the store, is more difficult.

17. *Retail accounting.*—One of the best ways to get a clear understanding of a retail business is to analyze its expenses. A merchant may secure valuable hints on the subject of retail accounting from many sources. For instance, the Federal Trade Commission has published a pamphlet entitled, "A System of Accounts for Retail Merchants," which contains some very valuable suggestions.

A study of these various trade accounting systems reveals one common trait—simplicity. Experience has proved that too many complications, with the resulting waste of time, will often bring costs so high as to defeat the purposes of a carefully worked out accounting system. The merchant wishes to tell at a glance whether things are going as they should without wading thru an involved mass of figures. No system which requires practically all a man's time can be called successful, because the cost of that time will often outweigh any economies which may come from systematized records.

There is a very close relationship between retail accounting and retail stockkeeping, particularly where a perpetual inventory system is in use. In fact, in the majority of cases, the perpetual inventory system depends directly upon the accounting system for its success. Therefore, where the foundation—accounting—is weak, it follows that the whole struc-

ture of the stockkeeping plan is correspondingly weak. This all goes to prove that the accounting system is important not only for its own sake, but also for the sake of one of the most important elements of successful retailing—a good system of stockkeeping.

REVIEW

What do you consider to be the duties of a superintendent?

Why is an attractive store front a good investment?

Discuss service equipment and store equipment.

For what purposes is equipment designed?

How are wage systems determined? Do you believe in bonus and premium systems? Explain your position.

What is the value of an adequate cost system in retail merchandising?

In what way does retail accounting contribute to the success of the business?

CHAPTER V

TRAINING THE SELLING FORCE

1. *"The salesman is the store."*—When you stop to consider that there are approximately fifty thousand salespeople in the department stores of New York City alone, it is evident what possibilities there are in the training of the young man or young woman behind the counter to represent more effectively and more truly the merchants themselves. Add to New York all the cities of the nation and then all the retail selling organizations of whatever nature, from the general store at the country crossroads to the chain organizations with their thousands of stores, and you get some idea of the hundreds of thousands of people engaged in retail selling in the United States. They make or break the store; yet how strange that the opportunity to help them "make" the store has been so long overlooked, or at best handled in such desultory fashion by the great majority of retailers.

True, there have been noted exceptions, particularly during the last decade or two; and true, also, in every such case striking success has followed. One of the most evident examples is that of the United Cigar Stores Company. Everyone knows how their business has been built in a decade into one reaching practically to every large city in the United States.

More than anything else their system of training the salesmen was responsible for this success. That the same methods are fundamental to all retail selling and just as applicable to one as to another, is evidenced by the fact that the United Cigar Store system of training retail salesmen and similar systems in large department stores, are being used with equal advantage by small stores.

2. *Explaining the store policy.*—The training begins immediately after the details of employment have been arranged. At that time, the educational record card is made out, showing all the facts; such as name and address, education, previous store experience, positions held and reasons for leaving. In addition, space is left to enter the new employe's records in the educational course.

A group of new salespeople is collected in one corner of the store during a dull period, or after the store closes, by the person in charge of the educational work or by one of his assistants, and the general manager gives a lecture on the history and policy of the store. Here is the first big opportunity; for the successful salesman must be first of all an enthusiastic believer in the store of which he is a part and in the merchandise he offers for sale, as well as in that hard-to-define something which we call the policy of the company. One of the notable recent department store failures was said to be due largely to the fact that the selling force had lost faith in their own store and literally drove trade away.

3. *Teaching the store system.*—Having become thoroly imbued with the spirit of the store and impressed with the importance of courtesy and real service to customers as invited guests, which they really are, the new sales clerk is ready to learn the routine system. The superintendent of the store is now the instructor. He takes up the sales slip or "schedule," as it is frequently called, and explains how it is made out under varying conditions. Then, as would be expected, the new clerk is quizzed to test his ability to follow instructions. The same methods apply to the making out of the various other forms, such as "hold tickets," "work tickets," "transfers," "special delivery slips" and the like. But great care must be exercised to avoid taking up too much at one meeting, for it is very easy to confuse the new clerk with a mass of forms. For that reason, instruction should be spread over several meetings on different dates. A stereopticon, especially of the reflecting type, has been found to be almost indispensable at Wanamaker's in instructing large groups in the store system.

Instruction is also given in the care of stock and in various other details of the salesperson's duties. If, however, they are special employes engaged for a single sale, the whole course in the store system must be condensed into one meeting. A store manual is provided for each salesperson and becomes a part of his permanent equipment.

In many stores the lower prices in the basement necessitate simpler systems and likewise a different

and briefer course of training in the store system. Generally this work can be condensed into one or two meetings, which are preceded also by a special discussion of the basement policy. Tests are required here as in the main selling actions. A special basement manual is also provided.

4. *Beginning actual selling.*—Then follow lessons in salesmanship in which the various steps in the sale, as illustrated in the chart, are carefully noted. The new recruit can begin selling at this time under the guidance of an experienced salesperson. At this time a complete record for the first year will be started. A form is provided on which a record of errors is maintained—every error of the new employe is reported to the superintendent and there taken up in person with the salesman. In some stores, as for instance that of Stix, Baer and Fuller Company, of St. Louis, a premium in the form of a half holiday bi-monthly is given those who keep down their errors to a certain minimum.

In addition to this, the staff of the educational department includes a number of "shoppers" who visit the new salespeople at their work and watch them sell, in order later to offer suggestions for improvement as well as to compliment them on their good work. At Strawbridge and Clothier's, in Philadelphia, a special attempt is made to clear their conversation of errors of speech in addition to training them in policy, sys-

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THE STEPS IN THE SALE

Prepared by Ma. James W. Fisk, Manager of the Training School for Teachers of Retail Selling maintained by the *Dry Goods Economist*.

THE STEPS SUMMARIZED

STEPS IN THE SALE	
I Attracting Attention	20 per cent
II Arousing Interest	20 per cent
III Creating Desire	15 per cent
IV Closing the Sale	20 per cent
V Introducing Other Goods	10 per cent
VI Securing Good Will	15 per cent
	100 per cent

THE STEPS ANALYZED

I ATTRACTING ATTENTION

Total 20 Points

PROMPTNESS

Alertness, watchfulness	1
Discontinuing other work	1
Rapidity of advance	1
Point at which customer is met	1

ATTITUDE

Showing recognition	1
Showing expectancy and deference	1
Appearing energetic	1
Self-confident bearing	1

FACIAL EXPRESSION

Pleasant	1
Expectant	1

ATTENTIVENESS

Unexpected service	1
Catch customer's first words	1

FORM OF SPEECH

Courteous	1
Suited to customer	1
Offering services immediately	1
Using customer's name	1

TONE OF VOICE

Audible, distinct	1
Sincere	1
Rhythmical	1
Suited to customer	1
Total	20

II AROUSING INTEREST

Total 20 Points

FIRST WORDS REGARDING MERCHANDISE

Definite information	3
Most vital selling point	2
Positive statement	1
Referring to purpose of purchase	1

FIRST ACTIONS IN SHOWING GOODS

Promptness in showing	2
Bringing goods to customer	2
Placing goods in reach	2
Displaying to best advantage	4

USE—COLOR—FORM

Removal of objectionable features	
Handling to enhance value	1
Showing right goods (Noticing implied preference)	2
Total	20

III CREATING DESIRE

Total 15 Points

BY WORDS

Following up interest	1
Adapting to customers' suggestions	1
Adapting to customers' actions	1
Supplying new ideas as needed	1
Answering questions readily	1
Anticipating objections	1
Using most vital selling points	1
Citing personal experience	1
Using evidence of other purchases or authorities	1
Getting customer to agree	1

BY ACTIONS

Showing right quantities	1
Displaying to best advantage	1
Showing points of superiority	1
Appealing to the senses	1
Comparison with other goods	1
Total	15

IV CLOSING THE SALE

Total 20 Points

THE TIME

Recognizing best time to close	5

BY WORDS

Finding reasons for delay	2
Overcoming expressed objections	2
Referring to customers' approval	1
Showing advantage of immediate buying	2
Suggesting that decision is made	1
Getting customers' consent	1

BY ACTIONS

Eliminating other goods	1
Overcoming expressed objections	2
Demonstrating approval merits	1
Suggesting that decision is made	2
Total	20

V INTRODUCING OTHER GOODS

Total 10 Points

MERCHANDISE

Allied lines	1
In own department	1
In other departments	1
Inferred preference	1
Advertised articles	1
New goods	1

FORM OF SPEECH

Service instead of selling	1
Suggesting further wants	1
Tone of voice	1
Suggesting future purchases	1
Total	10

VI SECURING CUSTOMERS' GOODWILL

Total 15 Points

DURING THE SALE

By prompt service	1
By attentiveness	1
By courtesy	1
By merchandise knowledge	1
By unexpected service	2

AFTER THE SALE

By continued interest	4
By expression of gratitude	2
By invitation to call again	1
By invitation to take advantage of special service features	1
By accompanying to department limits on departure	1
Total	15

tem and salesmanship. Likewise training in penmanship is frequently necessary. For regular people the course of instruction lasts ten weeks, with two meetings a week. Basement people, and those engaged for special reasons on sales, can be given only an abbreviated course.

5. *Special and general bulletins.*—From time to time special bulletins, called by one store "Efficiency Bulletins," are necessary. These are planned for the whole store force. Sometimes they are of inspirational character and sometimes educational.

They are sent to the floor superintendent or aisle managers in each section, by whom they are handled. Each salesperson reads them and signs, as a record of his reading. Later the subject is discussed under the floor men's leadership. The purpose of this is to go into more detail regarding the topics under discussion, and incidentally to make the idea "we are partners" more than so much verbiage. The floor man then sends in a report to the educational office to record the holding of the meeting held and the results obtained.

6. *Studying merchandise.*—When it comes to the study of merchandise itself, the task must devolve upon the person in charge of the buying. He should hold regular conferences with his sales force to educate them thoroly in materials and methods of manufacture.

The study of merchandise is coming to be regarded as equally important with that of system and sales-

manship and before many years it will be given its full share of prominence.

7. *Libraries and rest rooms.*—Marshall Field and Company give over a large part of their tenth floor to the exclusive use of their employes. Two reading rooms are provided. Music and rest rooms, as well as various other welfare features, are also associated with their educational work.

8. *Junior courses.*—In addition to such a course of educational training for the selling forces of today, a similar course must be provided for training of the salesmen and saleswomen of tomorrow, composed now of messenger boys and cash girls. Every large store has many of these boys and girls between fourteen and seventeen or eighteen years of age. In most cases they left school at the first legal moment, after having completed at best only the grammar school, and in a large percentage of cases only six or seven grades. For them some sort of continuation school must be organized. That at Wanamaker's, called the John Wanamaker Commercial Institute, may be considered typical. Regular classroom instruction under competent teachers is given in store time and occupies about four hours a week. The subjects are such as are needed to continue the previous education from the point where it was discontinued. Also to supplement it along lines most advantageous to one starting a mercantile career by including a study of the materials and methods of merchandising. The boy instinct is also developed

by military and gymnastic drills, boy scout exercises and the like.

9. *Cooperating with the public schools.*—In some cities a concerted movement has been started to get the public schools of the city to give some of this elementary training for mercantile life. In Winnipeg a group of club women made an investigation into the conditions surrounding the young girls working in department stores of the city, and as a result of it offered two recommendations. One was directed toward better living conditions by encouraging the opening of semi-philanthropic boarding-houses for working girls living away from home; and the other, the more important, urged the board of education of the city to revise the course of study in the public schools, and to add special continuation courses so that these girls might enter store work with a better chance to earn and command a living wage. Several American cities, particularly Cincinnati and Milwaukee, have added continuation schools such as the club women of Winnipeg recommended. Other cities are seriously considering it.

10. *Training the non-selling employes.*—To complete the educational system of a department store it is necessary to make some mention of the training courses in the non-selling departments. There are the weekly meetings of buyers to discuss policies and methods, and similarly of other groups, as that of floor superintendents and aisle managers. In fact, even buyers and floor men must complete a system of train-

ing similar in many ways to that required of a new salesperson. In many stores the educational director plans special courses for office and delivery employes and for each other group in which there is any considerable number.

11. *Results of the educational work.*—That the whole movement is proving successful is evident as much from the demand of salespeople of many years' experience that they be admitted to such courses, as from the tangible results themselves. In fact, in one Middle West store, that of Rike-Kumler Company, in Dayton, Ohio, the result of the first course of instruction was so striking as to bring the following remark from the educational director: "One great step which has been obtained is the awakened attitude of employes toward education. At first the older employes asked to be excused, but now they are beginning to realize the value of the school work."

REVIEW

What principles are used in training the selling force? Name one firm which was a leader in the movement.

What is the first lesson given to department-store new employes? How is the spirit of the store as well as its system taught?

Who should educate the salesman in materials, manufacturing, etc.?

What subjects, besides selling topics, are taught in the commercial courses in department stores? What is some of the welfare work? Do the employes approve of the educational and welfare work?

Discuss a typical course for junior employes.

How may department-store methods be adapted to other retail selling organizations? Of what value is a store manual?

CHAPTER VI

BUYING

1. *Necessity for good buying.*—If the retailer is to serve his trade well he must be first of all a good buyer. In order to continue in business he must be able to meet competition, and this again emphasizes the need for good buying. With the constant increase both in the cost of merchandise and the expense of doing business, the margin of profit is lowered.

Profits begin with successful buying. No matter how well goods are displayed and advertised and how carefully the sales force is built up, no merchant can overcome the handicap of poor buying sufficiently to operate his business under present conditions with even moderate success.

2. *Organization for buying.*—In a small store and even in stores doing as much as a hundred thousand dollars' worth or more of business annually, the proprietor is the buyer. As the store grows larger, the older clerks are allowed to buy less important lines, and buyers are engaged for the more difficult ones; while in the city department stores there may be a hundred or more buyers, many of whom have one or more assistants. In the very largest stores

the proprietor finds it impossible even to supervise all the buying, and an officer known as a merchandise manager is therefore put in charge of all buying activities. Whether the buying is for a country crossroads store or for a city department store, it must be done according to certain well-established principles if it is to be well done.

3. *Basic facts for merchandising.*—The analysis of the selling field, competition and the determination of marketing policies were discussed in an earlier chapter. The merchandiser begins the planning of his work with a study of these facts. From time to time a new analysis is made and policies are revised to suit changing conditions. Salespeople are required to hand in "want slips" showing requests for goods not carried in stock. "Shoppers" make the rounds of competing stores to keep in touch with competition and to get ideas for improvement; slow-selling systems warn against the repetition of errors in buying judgment. Complaints are checked up by the buying organization to prevent their repetition if the fault was due to poor buying. Reasons for not purchasing, as given to the salespeople, are turned in daily. Finally, buyers spend a large part of their time during the day among the customers of the store. When they are on buying trips it is as necessary for the buyers of high-class women's wear to visit the theaters and restaurants to see what well-dressed women are wearing, as it is to visit the manufacturers. Any expense incurred in [illegible] considered well

invested, for the buyer must be constantly revising the basic facts upon which his buying is planned.

4. *Determination of lines to be carried.*—In a general store which is to serve all the ordinary needs of the community, the problem is to have on hand all the goods that are wanted as far as the limited investment of money in stock permits. The real problem here is to apportion the investment in stock so that it meets the greatest possible number of wants, and at the same time the sort that on the whole are profitable to supply.

There must be a limit to the variety of lines offered, and to the assortment of items in each line. This limit is fixed by local demand. Goods not in demand are not stocked unless the merchant thinks he can arouse a latent or unexpressed demand for them. The selection of the variety and assortment of stock is determined by the amount or intensity of the demand, or by the possibility of creating a demand. The selection is determined also by the net profit to be derived from supplying the demand. Future business must be considered, as well as the prospect of additional trade in other lines, as a result of supplying certain lines and items.

Subsidiary to these main considerations are such questions as to whether a new line will fit in with others carried. Ludicrous combinations of lines are often found. Thus, a store in Baltimore, according to its sign, carries pianos, organs and iron safes. On the other hand, the successful clothier can well add

such lines as sporting goods to his sporting-clothes department, and such items of jewelry as cuff links, etc., to his haberdashery section. Likewise, shoe-repairing departments are often added for their convenience or service value to patrons of the store. Closely allied with this are lines such as oriental rugs or novelties, which are added for their advertising value, even tho the community demand would not warrant such additions. Frequently such goods can be obtained on consignment.

5. *Apportionment of investment.*—The analysis of the territory makes it possible to estimate the amount of total business which the retailer's trading center will produce on each line. Knowing how much of the total the retailer can expect to get in competition with others, he can estimate his own total sales in each line. This can be further subdivided according to price ranges, on the basis of average incomes of different classes in the trading territory. For instance, a merchant in a small city in Indiana, who handles only women's ready-to-wear garments, figures his total sales for each line. Then when he begins buying for a season he has an estimate of the number of garments in any one line that he expects to sell at each price range. If in addition he knows how many times he can turn his stock each year, he can figure the average stock requirements. If he can do a business of $5,000 in women's waists and can turn the stock over five times a year, he will need an average stock worth, at retail, $1,000. During the spring

season, his stock will run from a minimum of about $500 on February 1, to a maximum of about $2,000 at Easter time and will then gradually fall to the minimum of $500 about the end of July.

The task of determining price and style-range within the line is even more difficult. Staples must be carried in full range of size, color and price at all seasons, while novelties must be obtained from time to time according to the expected demand. The stock of novelties must be turned more frequently than that of staples. Conditions of competition frequently affect the distribution of the investment among lines. If a general merchant is particularly strong in one line, as for instance, in men's clothing, it is perhaps due to the exclusive agency of a well-known brand. Under such circumstances it would be better for another retailer in that territory to refrain from stocking such a line or better still to maintain only a small investment in it, unless, of course, he can secure a similar line equally as good.

In the case of a store already operating, these estimates of the possible business to be done in each line and each range of price serve as a sort of quota system or ideal to attain. The past records of sales as well as assortments according to price ranges, sizes, styles and the like in each line, cannot, of course, be neglected in forming these estimates. Yet to serve the buying community, the activities of the store should be planned according to community needs rather than past records. At first, it is best to obtain a complete

variety of lines and items rather than quantities of each item sufficient to supply a continuous demand, tho this course may be slightly more costly because of purchasing in small quantities. Fewer sales are lost, the opportunity to find out the complete range of demand is increased and the initial investment in stock is kept down. The variety should ke kept up to the point which assures the customers that they will probably find what they want in the stock. There is no other way to build up good-will for a new store.

6. *Merchandise plan.*—In the financial budget given in Chapter III, the outline of the plan for the business as a whole was given. It remains now to plan the buying according to that budget—to set up a merchandise budget or "plan," as it is generally called. The merchandising plan for the store in question is shown on the opposite page.

The merchandise plan is fundamental to all types of retailing. Some of the smallest country stores are being merchandised according to a plan; and the work is so well done that the results obtained are within a fraction of a per cent of those estimated. Every large store is merchandised according to a plan, tho there are various modifications. For instance, one department store doing about ten million dollars' worth of business a year is merchandised on anticipated costs of running each department, rather than on anticipated sales. In large stores where there are many departments, it is necessary to carry out the plan in greater detail in order to show such things

MERCHANDISING PLAN

For First Season of New Store Opening February.

	Initial Stock at Cost	Average Stock at Cost	Turnover per Season	Total Estimated Sales for Season at Cost	Mark-Up on Cost	Average Stock at Retail	Mark-Up on Retail	Total Estimated Sales for Season at Retail
Colored Dress Goods	$ 6,000	$ 5,000	1½	$ 7,500.00	33⅓	$ 6,666.66	25	$ 10,000.00
Silks and Velvets	7,500	5,000	2	10,000.00	33⅓	6,666.66	25	13,333.33
Black Goods	3,000	2,000	2	4,000.00	33⅓	2,666.66	25	5,333.33
Linens	4,000	3,500	2½	8,750.00	25	4,350.00	20	10,937.50
Cotton Dress Goods	5,000	4,000	2¼	9,000.00	25	5,000.00	20	11,250.00
White Goods	1,500	2,000	2	4,000.00	33⅓	2,666.66	25	5,333.33
Domestics	6,500	4,500	2	9,000.00	25	5,625.00	20	11,250.00
Laces and Embroideries	6,500	3,500	2	7,000.00	25	4,350.00	20	8,750.00
Handkerchiefs	1,000	750	3	2,250.00	40	1,050.00	28⅝100	3,150.00
Notions	2,000	1,500	3½	5,250.00	25	1,875.00	20	6,562.50
Ribbons	2,000	2,500	3	7,500.00	33⅓	3,333.33	25	10,000.00
Patterns	1,200	1,000	1	1,000.00	50	1,500.00	33⅓	1,500.00
Underwear	9,000	8,000	1½	12,000.00	33⅓	10,666.66	25	16,000.00
Women's Ready-to-Wear	18,000	15,000	3½	52,500.00	25	18,750.00	20	65,625.00
Gloves	750	500	2	1,000.00	33⅓	666.66	25	1,333.33
Corsets	1,000	750	2½	1,875.00	25	937.50	20	2,343.75
Hosiery	2,500	2,000	2½	5,000.00	33⅓	2,666.66	25	6,666.66
Perfumery and Fancy Goods	600	500	2	1,000.00	40	700.00	28⅝100	1,400.00
Men's Furnishings	5,500	4,500	2	9,000.00	33⅓	6,000.00	25	12,000.00
Carpets, Rugs and Upholstery	12,000	7,500	1½	11,250.00	33⅓	10,000.00	25	15,000.00
Leather Goods	1,500	1,000	2½	2,500.00	33⅓	1,333.33	25	3,333.33
Total	$97,050	$75,000		$171,375.00		$97,470.78		$221,102.06

Estimated total sales per season at retail minus total sales per season at cost equals the gross profit. For instance, $221,102.06 — $171,375.00 = $49,727.06 gross profit.

Then the gross profit divided by the total sales per season at retail equals the average mark-up per season on retail. As, $49,727.06 ÷ $221,102.06 = 22.49 per cent average mark-up per season on retail.

The gross profit divided by the total sales per season at cost will give the average mark-up per season on cost. $49,727.06 ÷ $171,375.00 = 29.01 per cent average mark-up per season on cost.

Finally, the total estimated sales per season at retail divided by the average stock at retail equals the average turnover at retail for the season. Then if this be multiplied by two the annual average turnover can be obtained. $221,102.06 ÷ $97,470.78 = 2.26 average turnover per season. Then 2 × 2.26 = 4.52 average annual turnover based on estimated annual sales at retail.

as cash discounts for each department, departmental expenses, mark-down, losses and the like. In single line and general stores, which are not departmentized, the plan is much simpler as the figures are for the business as a whole rather than by departments.

7. *Fixing the standard turnover.*—It will be noticed that a standard turnover for the season is set for each department. In a small store, the proprietor decides on the number of times he ought to turn each line carried during the year or season. (The figures in the merchandise plan are for a season; the annual turnover being of course twice the seasonal turnover.)

The term turnover is of recent origin, and there is some confusion as to its exact meaning. Some merchants figure what they call "merchandise capital" turnover. This represents, as its name indicates, the number of times the capital used in purchasing goods is turned over. This is computed by dividing the average stock maintained during the season, at cost, into the gross sales at retail. This method of figuring the turnover has been applied to a stock turnover by some merchants, with the result that they are operating their business on a false basis.

As a matter of fact all figures should be converted at once to the retail basis and all calculations based on both stock and sales at retail. If this is done, we get the true turnover, which, in contra-distinction to the so-called merchandise capital turnover, is called the stock turnover. It is obtained by dividing the average stock maintained during the season or year

at retail prices, into the total sales during that period at retail prices. Some stores figure it by dividing the average stock at cost into the total sales at cost. This method is not quite as accurate as the one using the retail prices as a basis because the retail figures show more accurately the true value of the merchandise. The total volume of sales at retail is a definite figure, while the actual cost of merchandise sold is difficult to obtain except thru the maintenance of elaborate cost systems. The average stock at retail is likewise easy to figure accurately because in all up-to-date stores, merchandise is given a retail price as soon as it is received. The actual cost of each lot is obtained afterward by taking off the mark-up and likewise the loss thru reductions.

8. *Determining the gross profit desired.*—The proprietor or merchandiser and the buyer in each line, must plan the amount of gross profit desired on the line. In actual practice the figure is arrived at in any one of several ways. If the expense of doing business in a department is 25 per cent of the total sales and it is desired to make a net profit of five per cent on each sale, it is evident that the gross profit on sales must be 30 per cent. However, there will occasionally be a necessity for marking down some goods in connection with sales, and some goods will be damaged, while others will be stolen. Again, it will be necessary to mark certain lines below the standard mark-up as "leaders" or to meet competitors' sales prices. Hence, the average mark-up must be

somewhat higher than the actual gross profit desired. In lines where style is an element, reductions are more frequent than in staple lines. Thus, it is impossible to set one standard for all lines. In the merchandise plan it will be noticed that in women's ready-to-wear garments the plan calls for a maintained gross profit of 20 per cent. In order to average this on all goods sold, as in reduction sales, goods are frequently sold below actual cost, it will be necessary to aim at more than 20 per cent profit. But it will be noticed that the number of turnovers is greater in this department than in any other. Here an average gross profit of 20 per cent is sufficient, whereas an average gross profit of as high as 33 1/3 per cent is required in certain slow-selling lines. So, in the final analysis, the customer pays on an average about the same per cent above the cost of the merchandise in all lines. What is lost to the merchant thru reductions is more than gained thru frequency in turning the stock.

9. *Turnover as a merchandise factor.*—As one successful retailer remarks: "One of the most insidious leaks from the 'profit chest' of a retail store is very often caused by the idleness of stock, failing to turn it as often as it should be in a given period. And this is due in a good many cases to the fact that the merchant has no standard turnover in each line to go by." Many merchants try to build up volume by having such complete lines that they can turn their stocks only twice a year. If they would but study the needs of their community, the demand from

day to day, and order frequently and in small quantities, they could get along with much less inactive stock, and their stock would be newer and fresher at all times. Frequently, too many competing lines are carried by the retailer simply because he assumes he has to carry them in order to hold his own in a competitive market. In the toilet goods department of one store, twenty-eight lines of talcum powder were carried while only fifteen of them were selling in sufficient quantity to warrant being stocked. Every one who is acquainted with the typical country store knows that the slow-selling and dead stock is a heavy drag on the business. The stock which does not move eats up the profit on other lines. The longer it stays on the shelves, the more it depreciates, the more interest and rent charges it piles up, and the more it deprives the merchant of profits he might be making on fresher and more salable merchandise.

Of more importance is the merchant's obligation to his customers. It is his duty to handle what the customer wants, in the quantity needed, and at as low prices as are consistent with giving the merchant a fair net profit at the end of the year. Now suppose the merchant buys $1,000 worth of goods and marks it up 50 per cent on cost or 33 1/3 per cent on retail. Because of competitive selling conditions, his price is so high that he can turn that stock only twice a year, at a total gross profit of $1,000. Suppose, instead, he marks the goods at a 33 1/3 per cent mark-up on cost (25 per cent on retail) so that on the stock cost-

ing him $1,000, he makes a profit of $333.33 against $500 on the previous basis, but on account of the lower price, he can turn his stocks four times during the year, then his gross profit at the end of the year will be $1,333.33, or an increase of $333.33 over the previous method of figuring a higher gross profit. At the same time, he has supplied his customers with desired merchandise at a lower price and has rendered them greater service.

Many retailers have seized upon the turnover as a grand panacea for merchandising shortcomings and have made a fetish of it. It is true that it is *one* of the evidences of successful merchandising but only one. Various other factors must be taken into consideration in order to determine the results of good merchandising. Against the desire for a high turnover must be set the necessity of maintaining sufficient stocks to take care of the needs of the shopping clientele and likewise the relative importance of volume of business.

It is much better to serve well in five lines by having five stocks of sufficient completeness to take care of average needs, bought according to a merchandise plan which is built on a knowledge of the trading community, at the lowest quantity prices, with deliveries according to seasonal needs, than in fifteen lines of which none is complete or bought on advantageous terms. The attempt to make too many turns of stock is dangerous. The costly sale is the one you lose thru being "out of stock," and no "want slip"

system yet devised has told how many such sales are lost daily in the store, making a fetish of turnovers.

10. *Controlling the buying.*—The merchandise plan shows how much business should be done during a season. This is split up into months of the season so as to form a sort of quota for each month. It is also necessary to leave stocks clean at the season's end and for this purpose a desired minimum is set. Therefore, the merchant can figure out what his sales and stock on hand should be from week to week in each line and know how much it is necessary to buy thruout the season, and how much stock from week to week to take care of the volume of business which has been planned. The necessary sum is allotted to each department, by months of the season; and as purchase orders go thru, the totals are deducted from the allotment. Some stores will not allow buyers to exceed the current allotment for each department unless under unusual conditions. If sales run ahead of the quota, the amount of the increase is automatically added to the current buying allotment; and likewise, if sales run behind, it is deducted.

The system described is open to the criticism that it is too mechanical. Buyers frequently complain that their superiors will not allow them to buy necessary merchandise. Generally this is an acknowledgment of previous poor judgment in buying. Successful merchants move slow-selling merchandise by freshening it up with new goods; and so are as anxious as the buyer to help in reducing the stock thru a well-planned

special sale, even tho it may necessitate an extra allotment for a special purchase to add to what is already an over-purchase.

In lines in which styles play an important part, the buyer for even the small store, visits market centers frequently in order to keep in close touch with the market. These visits sometimes result in getting better prices but always in strengthening the relationship between wholesaler and retailer, as well as in giving the retailer a better knowledge of merchandise and trade conditions. The buyer must follow up every other means of studying his buying market, such as trade papers, catalogs, circulars and quotation sheets of wholesalers and manufacturers. He should be acquainted with the trade association in his line, particularly if it offers such a buying service as is rendered by the National Retail Hardware Association.

Various questions arise in connection with the selection of wholesalers with whom one is to deal, and upon most of them general principles can be given in answer. For example, should the retailer buy from nearby wholesalers or from those located in distant markets? In the case of small retailers, the closer the buyer is to the source of supply, the better. Jobbers recognize that there is a distance beyond which they cannot render efficient service, and manufacturers, such as the Regal Shoe Company, in order to serve efficiently distant customers, find it necessary to open branch warehouses at various centers

with complete wholesaling and dealer service equipment.

11. *Concentration of purchases.*—Should the dealer scatter or concentrate his purchases? There can be no doubt of the value of concentration, for the wholesaler with whom the buyer does a large part of his business is in a better position to cooperate with him than a wholesaler who secures only a small part of the business. Concentration is also necessary in order to get the exclusive sale of a line of goods. But it is of even greater importance as a sort of insurance against financial troubles and a guarantee of prompt deliveries. If a worthy dealer owes only a few houses, these houses often enter into an agreement to give him financial assistance if necessary. If he owes many wholesale and manufacturing concerns, it is almost an impossibility to effect such an agreement when he needs help. There is also an unwritten law that when there are a great many creditors at the time of failure, it is a prima facie evidence of deliberate fraud.

On the other hand, concentration may also lead to an easy-going relation between the salesmen of manufacturers and wholesalers, and as a result the buyer may not get as good prices as if he were to shop around and occasionally haggle over prices. In any case the buyer must be independent and must know his market and what other wholesalers are offering. Unfortunately the rule of *caveat emptor* has not entirely passed away. While the wholesaler should give the best treatment to his best customers, and gener-

ally does so, there is still a need for good buying by a man who knows the market and the demand, who is independent, yet appreciates the cooperation.

12. *Buying interview.*—In an interview between a buyer and a salesman or representative there is a distinct advantage to the one who dominates the interview. The alert buyer is quick to gain this advantage and assume an impersonal attitude in which he can resist pressure and make the salesman prove his statements. Furthermore, a good salesman is quick to perceive a buyer's ability and will treat him accordingly.

Courtesy on the part of the buyer is never wasted. A salesman may have nothing of interest to offer one season but the following season he may have a splendid line, and will help the buyer who has been friendly, even tho refusing to buy. This is especially true in a "seller's market," when retailers have trouble in getting goods. The buyer who has treated the salesmen of wholesalers squarely in the past is now getting the favors. The fellow who has always been gruff and unpleasant, who has always taken an unfair advantage, is begging in vain for merchandise. Mr. Lew Hahn, Editor of *Women's Wear,* in an address before an assembly of merchandise managers of the National Retail Dry Goods Association in September, 1916, gave this admonition to the buyer: "Be courteous; be fair; be watchful."

13. *Selection of merchandise for quality.*—It goes without saying that the buyer should be able to judge

qualities; yet the means of learning how to test for quality have been few. Large concerns have chemical laboratories as an adjunct to their buying organization. For the smaller concerns there are in every line many simple tests that can be readily learned and quickly applied. From time to time simple treatises on such methods are published. For instance, there is a variety of recent books on textiles descriptive of processes of manufacture, trade names, uses and tests for qualities. Many of these are issued by manufacturers.

14. *Element of price.*—Merchandise of quality will bring its price in spite of so-called shrewdness on the part of the buyer. Manufacturers work on a narrow margin of profit and it is certain that the buyer who haggles and forces down prices beyond a reasonable limit is sure to get inferior merchandise. Many merchants realize this. The merchandise manager of a large department store remarked at the dry-goods convention mentioned above, "When my buyer of women's ready-to-wear coats finds an attractive one at, say, $18 wholesale, he does not try to beat down the price to $16.50. Instead, he would frequently offer the manufacturer a dollar more to put in a better lining or a more attractive collar."

15. *Attitude toward discounts.*—There are as a rule two sources of profits in retailing—the primary profit from buying and selling, which is called the merchandise profit, and the secondary profit from the cash discounts obtained in excess of the value of the

money used. Discounts will average thru all merchandise lines about two per cent for payment within 10 days with net at 30 days. Assuming that the account is paid at the beginning of the ten-day period, this would give a discount of two per cent for the use of the funds for 30 days. On the basis that the money is worth six per cent per annum, there is a profit of 18 per cent in taking the discount. Therefore it is not surprising that buyers strive to get as big discounts as possible. In some houses there is a rule that buyers should get an average of five per cent discount for cash. They figure on selling their merchandise so low as to eliminate any net merchandise profits, depending on the discount profit for all the net profits to the business. In the long run such houses are simply buying discounts. They usually pay a higher price for their merchandise in order that a discount may be thrown in. But it should be the rule, once the desired merchandise has been bought at a fair price, to get as good a cash discount as can be obtained.

16. *Accrediting the discounts.*—The discount question brings up another which is even more disputed in the merchandise world. Is the discount a part of the price of the merchandise and so a trading profit, or is it a result of financing the business and so a financial profit? In other words, does the discount go to the credit of the merchandise division of the business or is it an office profit? Practice varies widely and there are many arguments to support each side

of the question. It has always seemed to the writer that, as cash discounts must be taken under present conditions of competition in retailing, if the retailer is to make a living profit, the buying cost of the merchandise is the net price after all discounts have been taken off, and therefore, that the cash discounts belong to the merchandise division. In that case, the merchandise and discount profits should be combined to show the profit in each line.

17. *Element of style, novelty and exclusiveness.*—The class of trade for which one is buying will determine how much importance should be given to style, novelty and exclusiveness. It is always advisable to have a few novelties on hand to attract attention and brighten up the store. Frequently, too, they can be obtained on consignment. In lines such as oriental rugs, diamonds, furs and gowns, a large percentage of the business in small cities and villages is done thru consignments. Fresh, attractive merchandise always offers the strongest possible selling appeal and aids greatly in advertising the store.

18. *Stocking new lines.*—When it comes to stocking of new lines in competition with lines already carried, or with specialties and luxuries, the analysis must go further. The buyer should ask himself such questions as the following: Is there a sufficient demand to warrant my stocking this article? Do I now carry in stock similar articles that will answer the purpose or that are even better? Will it fit into the prearranged merchandise plan? Are the manufac-

turers reliable on quality, satisfaction and deliveries? What quantity can I sell in one month? In six months? Then may be considered the matter of price, discounts, margin of profit, etc.

19. *Pricing the goods.*—In the merchandise plan, a mark-up is set for each line. This is the amount of gross profit which must be maintained above all losses and reductions. It serves only as a general guide in pricing each lot. Goods are bought to sell within a definite price range. The buyer goes into the market to buy women's ready-to-wear suits to be sold at $25 and he is expected to make a certain gross profit. Therefore, he knows what the limit of price cost must be and buys accordingly.

In some instances, it is well to let the salespeople assist in the buying. That is one of the advantages of buying from traveling salesmen. When, for example, a garment is shown, the salespeople may be asked to examine it and suggest the retail selling price for it, without knowing the cost. If the consensus of opinion indicates that it will bring $25 and the price is low enough to obtain the desired profit, it may well be bought. Perhaps, at $25 it may bring even more than the desired profit. If so, the extra profit will help to balance a loss somewhere else or to serve as a margin of safety. After all is said, goods are worth only what they will bring. Slow-moving goods must be reduced and cleared out because the sooner the loss is taken the less it will be.

20. *Profits.*—This brings us to the question of

what is a fair profit? Profit may be defined as that amount which a merchant has left after all conceivable expenses of doing business have been taken care of, such costs to include even such items of expense as interest on capital invested and reasonable compensation to the merchant for the services which he gives the business. Profit is a payment, not only for ability but also for initiative, and for the risks which the merchant takes in doing business. It is profit which measures a merchant's success.

The man who has brought the business into being—giving much time to the preparation and to the study of conditions, and on whom rests the responsibility of success, a responsibility which is usually with him at all times—is surely deserving of something better than a manager's salary for his work and worry, his risks and responsibilities.

21. *Buyer as a merchant.*—It would seem from this discussion that the buyer had enough to do in buying alone. As a matter of fact, in most retail stores, from the smallest to the largest, the buying has to be worked in with the bigger job of merchandising. Very large stores expect their buyers to spend their first hour in the morning supervising the arrangement of the stock on the selling floor and also in the reserve stock rooms. Up to eleven o'clock, their time is given to buying. The remainder of the day is spent on the selling floor, assisting salespeople and customers. Many buyers "keep a book," as selling and making out sales slips is called. No man

can keep in touch with consumers' demands without this personal contact. In addition, if the buyer is to be a real merchant he must collaborate with the advertising man in planning the advertising and display of his lines and, in addition, cooperate with every other person connected with the successful operation of the store.

REVIEW

Describe some ways in which basic facts for merchandising are obtained. How would you determine the lines of stock to be carried in a retail store?

If you had a retail store in a small town how would you be guided in apportioning your investment?

What is the correct method of figuring a turnover? Why does a rapid turnover indicate successful merchandising?

How does a buyer keep in touch with the buying market?

Show the value and the drawbacks of concentration of purchases.

Discuss cash discounts. How would you accredit them?

CHAPTER VII

STOCKKEEPING

1. *Necessity for good stockkeeping.*—Since great care is taken to obtain the right kind of merchandise to be sold, naturally as much care should be given to handling and keeping track of it; if this second phase is neglected, the whole merchandising plan will fail. Yet it is striking how little serious attention is given to the matter. As is so often the case, the obvious course is not generally followed. The retailer, after planning and working to get the right kind of goods at the right price, relaxes his concern regarding the goods themselves and centers his energies on advertising, or becomes engrossed in the multitudinous details of running his store. He looks upon the handling and storing of the merchandise as physical labor. As for a systematic means of keeping track of it, why all the fuss? The doors are locked at night; and during the daytime, the stuff is there to be sold, and it either sells or stays until a clearance sale is held. So usually the merchandise is left to take care of itself.

The money is used to buy merchandise in order that the retailer may sell it again at a profit. The buying expense, whether the buying is done by the

proprietor himself, or by a salaried buyer, is not to be neglected. One department store adds seven per cent for direct buying expense and general buying overhead. Another store considers four per cent enough. The average expense is probably about five per cent. Add to this the freight, cartage and receiving-room expenses and a proportionate share of the general overhead, deduct any cash discounts, and you have the net delivered cost of your merchandise. Every dollar's worth of merchandise on the selling floor has cost nearly $1.10, and the moment it gets there it begins to depreciate. In some lines—such as millinery—only two weeks is allowed for selling the goods at the regular price; while in others, the time allowance may be two to six months. When the time allowance expires, the goods are marked down materially and then again, and again, if necessary, until they are sold. This reduction is made to lessen the loss that is certain to accrue if the goods are allowed to remain in the store. And what are the causes for this depreciation? One is improper storing and care of the merchandise. Boxes become broken; goods become soiled, mussed or faded; larger quantities than can be used are allowed to accumulate; ranges of sizes, colors and styles become irregular; and goods are allowed to remain in the stock rooms which should be on show. As a result, sales are lost because goods are out of stock; sometimes employes think they are out of stock because there is no way of telling absolutely what is in stock at the moment. Such a condition of

affairs is a great handicap both in sales and records.

The explanation of the whole matter lies in the fact that many merchants give their personal attention to watching the cash, while they delegate to some husky young chap—a man of brawn rather than of brains—the task of caring for the merchandise. They fail to realize that people will "pilfer" merchandise who would not "steal" money. They do not understand that, in the purchase of their merchandise, an expense of from five to ten per cent was incurred, which they can get back only by selling at a profit. And they do not know, or they forget, that the merchandise begins at once to depreciate rapidly. Merchants would be better off if they would put the honest young "husky" in charge of their cash, and assume personal responsibility for their merchandise.

2. *Receipt of merchandise.*—It does not matter whether the merchandise is received at the back door or at the special entrance to a receiving room—the important thing is that there should be a definite place where it is always received, and where the receipt of it is recorded. In any case, the receiving quarters need be only just large enough to hold the inflow of goods for an hour or so, since there should be no possibility of their being delayed in getting to the selling floor, or to the reserve stock room. Suppose, as in the store mentioned earlier, the buying expense is seven per cent, and the freight and cartage $2.00. And that the lot consists of ten dresses, which cost the merchant $10 each at wholesale, and that he obtained a

discount of five per cent ten days, net 60 days. Of course the discount is to be taken in this store, and is to be credited to the department. Suppose, also, that the merchant is to get a mark-up of 20 per cent on retail, or 25 per cent on cost. The invoice, with his annotations would read as follows:

10 dresses at $10.00 each	$100.00
5 per cent for cash in ten days	5.00
Net to manufacturer	$ 95.00
Freight and cartage	2.00
Total cost of dresses	$ 97.00
Direct buying expense and general buying overhead at 7 per cent	6.79
Net delivered cost of dresses	$103.79
Net delivered cost for each dress	10.38
Mark-up of 20 per cent (25 per cent on cost)	2.60
Retail price per dress	12.98

In actual practice the buyer would now look over the goods, calling into consultation several of his salespeople, and decide what retail price to put on them. Some dresses might show up better than others—there might be all kinds of contingencies to affect the decision as to the final price. But under average conditions, the price for each dress would be made $13, or $12.98 in stores where "penny prices" are used.

In the receiving room, a ticket will be made out for each garment, showing the lot number, the size, the color and the price at retail. The cost price does not show on the ticket, even in code. Thereafter, the dress is a thirteen-dollar dress, not a ten-dollar one; and there is great importance in this because we are all influenced by names and terms. In some houses,

after the invoice is paid and destroyed, there is no way of telling absolutely what any individual article cost. A general idea can be gained from the average mark-up required in a department or line, but the thing that concerns the retailer, after the articles are bought, is what they will sell for. If a buyer does not mark up any article to the usual limit set for that line, the receiving clerk should get the authority of the management before marking the goods below the figured per cent of mark-up.

The value of the goods at inventory time is the only figure of any interest. This may be greater or less than the cost, and the only way to find it is to appraise the merchandise and ascertain what it will bring, or at what price it can be replaced. If the merchandise consists of staples and the market is rising, the merchant will appraise it at its current market value and mark up his retail price correspondingly. If, on the other hand, it is depreciating for any reason, or if the market is declining, he must appraise it for what it is worth at the time of inventory. He must also reduce his retail price correspondingly. The profit he makes out of a rising market, he should take without any qualms of conscience, and he must take as philosophically any losses from a falling market. In the case of the latter, the sooner the merchant takes his losses the smaller they will be.

In this connection it is not recommended that the retailer become a speculator, as many jobbers have done. The function of the retailer is that of a retail

distributor and he is not expected to make a speculative profit. The retailer who feels assured of a rising market uses good business judgment if he buys staples for several months' consumption while the price is low. But primarily, he buys for immediate resale only. When he buys more food products than he can sell and stores them to speculate with them on the produce exchange, he is not, at least for the time being, a retailer.

3. *Reserve stocks.*—There is no fundamental reason for keeping reserve stocks. The buyer should be able to distribute his deliveries in such a way, and to obtain so much merchandise on reorders, that whatever stock is required to run the business can be kept on the selling floor. After all, merchandise is bought to be sold, and the only place to sell it is from the shelves or over the counter. The reserve stock is dead stock, and is, at best, a heavy drag on the business. Because they realize this fact, shrewd merchants are cutting down the space allowed for reserve stocks.

One New York department store, which has five large selling floors, until recently devoted a whole floor to the reserve stock. They decided, however, that keeping so much reserve encouraged overbuying and tended to cause slow turnovers. Therefore, at the beginning of the spring season of 1916, they cut down the space for reserve stock to a quarter of what it had been and set a maximum and a minimum reserve for each line of novelties and for each item of staples. Then they told their buyers that it was up

to them to control their stocks and their purchasing so closely that they would be able to serve the trade as well without the large reserve stocks. At the same time they rearranged their selling floors and put in new fixtures that allowed them to carry larger active or "forward" stocks. The plan has resulted in a material increase in sales because of the presence of a fresher stock on hand at all times, and because of the greater turnover, the greater volume of business and the greater net profits, with no increase in want-slips calling for goods out of stock. This example furnishes striking evidence of the advisability of keeping the amount of reserve stocks down to a minimum.

During the year 1917, it was a constant problem for the average retailer to get enough staple merchandise to supply his needs, partly because of the inability of manufacturers to keep ahead of the demand, and partly because of the delays in freight shipment. The variation of prices according to quantity, as well as many other factors, affects the determination of what shall be the maximum and the minimum stock to carry in each line. The rental values of floor space, the amount of space each line requires, the necessity of displaying different sizes and colors within a limited space, with the result that there is little room for anything but samples, whether purchases are carried home by the customer or are sent thru the delivery department, are considerations which affect the decision: first, in regard to whether all the stock shall be kept on the selling floor, or a part shall be held as reserve

stock; and secondly, regarding the maximum and minimum to be carried in each line.

In any case, however, the reserve stocks should be reduced to the smallest amount consistent with the rendering of good merchandising service. Pass the responsibility for carrying surplus stocks back on the jobber and manufacturer, and let them pass it back to those who collect the raw material. Each, in turn, will reduce his loss from slow-moving stocks.

4. *Arrangement of reserve stocks.*—The reserve stocks should be grouped according to the general plan of arrangement for the active stock on the selling floors. In a department store the reserve stock of each department is placed by itself, generally in a cage under lock and key. In each department the "head of stock," who is generally also assistant buyer, is in charge of the stock of the department. There may be a stock clerk, also, for the department, but generally work in the stock room is done by the regular clerks of the department during the early morning hours. When goods are transferred from reserve to active stock, a requisition is given the person in charge of all the reserve stocks, and he deducts from his reserve-stock inventories the amount of the reserve that has been removed.

The stock of a department is arranged according to lines rather than according to manufacturers. For example, all the different brands of talcum powder are grouped together. The reason for this arrangement is largely psychological. If the goods of each

maker were placed in a group by themselves, the buyer would be more likely to buy, at various times, all the brands of talcum powder of each prominent maker, largely because of this prominence. No matter how successful a manufacturer may be, he is certain to have occasionally on his list, a poor or slow-selling article. Accordingly, the retailer who buys all the line gets many slow-moving articles; furthermore, he gets too many competing lines. If all the brands of talcum powder, for instance, are grouped together, irrespective of makers, the buyer is more likely to get a representative assortment of the most desirable and the best-selling goods.

5. *Active or "forward" stock.*—The question of the arrangement of the store, as a whole, and of different departments, was taken up in chapter IV under the subject of operation; the arrangement of the goods, from the standpoint of display, will be discussed in chapter VIII under the topics of advertising and display. In this chapter, we are concerned with the problem of handling the physical stock and of keeping track of it. After modern fixtures for each class of stock have been provided, according to the maximum and the minimum amount which it has been decided to keep on the selling floors, it is a simple problem to take care of and keep track of it. The makers of modern store equipment have reduced the work of stockkeeping fully 100 per cent. To keep the active stock in good condition is a simple problem, the successful solution of which, however, depends largely

on the constant vigilance of the person in charge of each stock.

The major work of stockkeeping is done before the store opens in the morning and during the early hours of the day, when shopping is at a minimum. During the day the clerks spend their spare time after each sale in straightening out stocks. In certain lines, like jewelry, each tray is put back before another is brought out. In gown stocks, girls follow the sales clerks to put back each article as soon as the customer is no longer interested in it. Every article must be put in selling condition before it is returned to stock. Any damages must be repaired, and any defects in equipment—for example, breakages in stock boxes—must receive immediate attention. The problem of stockkeeping is simple, since it requires only careful attention; nevertheless, the lazy person or the person who is content with slip-shod conditions had better leave it alone.

6. *Importance of keeping track of the stock.*—So far, we have been describing methods of handling the stock. Equally important is the need of knowing the quantity of stock on hand in each line, the style, the color, and so on. This knowledge is the only basis for reorders and is therefore fundamental to all the records of the business; it is gained by one of two methods, or by a combination of both. The older method—that of the physical inventory—was, until recently, considered the only satisfactory one. It consists of taking an inventory at regular intervals

—generally annually—of the goods actually on hand, and noting the value of each article, as well as the total amount in each line and the grand total of the entire stock of merchandise. As previously remarked, goods should be appraised at either the amount they will bring, or at the amount for which they could be replaced. If the stocks are carried at retail, the mark-up should be deducted from the appraised retail value. The result is the appraised cost value.

The newer method is the perpetual, or book, inventory. When this is used, a record of purchases and sales is kept in order that the difference may be computed to show the amount on hand at any given time. Theoretically, there is no reason why this method should not be used just as successfully in the case of merchandise as in the case of funds. And many concerns are finding that the practice is as satisfactory as the theory. The Atlantic and Pacific Tea Company requires each store manager to account weekly for each item of stock that he has received, down to a single egg, just as they require him to account for each penny he receives from the sales. If an egg is broken he must save the shell as a voucher.

When the perpetual inventory is in use, the periodical physical inventory—whether weekly, as in some grocery chains, or monthly, as in a cigar chain, or semi-annually, as in a department or general store—is used as a check against the book inventory. Mr. Frederick M. Ayres, president of L. S. Ayres and Company, of Indianapolis, gives the following inter-

esting illustration of the reliance now placed on cumulative inventories.

Until about six or seven years ago, we made a semi-annual physical inventory of our stocks, at cost, having no method of checking these inventories other than trying to assure ourselves that the inventory itself was made with proper care and thoroness.

The various percentages of mark-ups, gross profits, markdowns, etc., thruout the year were only approximately arrived at by the experience gained in the past years. Under the system of carrying all our figures at retail, and of depending on a cumulative book inventory, these percentages are now known absolutely and correctly at the end of each month.

The most astonishing fact, however, that was disclosed by the cumulative book system, was that errors crept into the taking of a physical inventory, even under the most careful scrutiny. We found that where it was necessary to take a stock over again, the difference in the two physical inventories taken within a very short time was often very large, showing that under the old system of taking physical inventories at cost, it was impossible to be certain that the final figures were correct.

The advantage of being so certain of the monthly stock on hand was proved to us two years ago. A fire in the building adjoining our main store destroyed part of our stock in the upper floors of that building and caused a considerable smoke damage to the stock in our main building. The fire occurred on the second day of January, or just after we had completed taking our semi-annual physical inventory.

In this case, all that would have been necessary would have been to wait until these inventories were extended and recapitulated. As this, however, would have taken a period of two weeks or more, during which time we would have been obliged to keep our store closed, the insurance companies immediately agreed to settle on the basis of the stocks as shown by our cumulative book inventory without waiting

to figure up the physical inventory, so that the actual loss of time was cut down to three days.

The discrepancy between the stocks called for by our books under the cumulative system of inventorying and that called for by the physical inventory averages about one per cent every six months. We have therefore set up what we call a Merchandise Depreciation Account, and charge off one-sixth of one per cent per month to this fund.

Instead of invoicing our entire establishment on the first days of January and July, as we formerly did, we now invoice our stocks at such times in the year as are best suited for the individual departments. This procedure has done away with the confusion of invoicing our entire establishment semi-annually, during which time the departments are bound to lose their efficiency more or less, but instead allows the different departments to invoice at any time when business in the department is the slowest. We could not be persuaded on any account to give up the system of cumulative or book inventorying on the retail basis.

7. *Preparing for physical inventory.*—There are two general methods of preparing for inventory. The first is to take stock, and have special sales afterward; the other is to clean out the stock by means of sales first, and then take the inventory. Most merchants favor the latter method, since it makes it possible to reduce all stocks to the minimum before taking inventory. Of course, a certain amount of buying is necessary because of the fact that it is considered poor policy to let the supply of articles for which there is a demand become exhausted. Merchants generally try to anticipate such a possibility and still buy as lightly as possible.

8. *Preliminary work.*—Within a reasonable num-

ber of days before the actual work of inventorying is to be begun, the clerks and salespeople are instructed to straighten up their respective sections of the stock. They are expected to examine carefully, sort and count the contents of each case, drawer, bin, carton, or whatever container the goods are stored in. The results of the examination are written upon what is called a "first-count slip," which is placed in the container with the counted goods. In many stores the number of the container is also noted on the slip.

It is customary to use slips printed with blanks that provide space for filling in various details such as quantity, style number, selling price, cost number, and whatever other details may be considered necessary.

9. *Inspecting stock.*—During stock-taking the goods are actually handled, in order that there may be no misunderstanding in regard to their condition. In many instances it has been found that goods would have depreciated if they had been left as they were originally stored.

It is considered advisable to examine every item in the stock, to learn the present value or salableness, and to become acquainted with the stock on hand. When every article in the house bears a plain mark, confusion is avoided; moreover, the marking of the stock means a saving in time during inspection, as well as when the goods are being sold.

10. *Numbering.*—In order that all the first-count slips may be carefully accounted for, they are consecutively numbered in advance. These slips also bear

some distinguishing mark of the department to which they belong.

11. *Changes after first count.*—Inasmuch as the counting, the measuring and all similar operations begin before the actual work of the inventory is really under way, it happens that after certain lots have been counted, new goods of that kind will arrive. Some of the items counted may be sold. In each of these cases the respective first-count slip is changed accordingly.

12. *Taking stock while business goes on.*—The old method of requiring the salespeople and those who have charge of the stock to stay long after hours, straightening out inventories and listing goods carried on the shelves, is now a thing of the past. The modern method, which is much better, permits the taking of stock during business hours, and while the department is busy selling. In stores which maintain cumulative book inventories, a staff of people for the physical inventories can work from one department to another continuously.

13. *Plan of inventory.*—The preparation having been completed, books are provided which are ruled with a sufficient number of columns to accommodate the various headlines under which the stock is to be entered, as lot number, kind of merchandise, sizes, types, and any other heading that may indicate an important feature of record to be kept.

Loose-leaf sheets are ordinarily used; these sheets, which are bound and covered, contain the number of pages necessary for the listing of each classification

of goods. In stores where a number of people are engaged in making the inventory, it is considered essential to use a number of these small books in order that entries may be made simultaneously. It is, of course, important to use these books not only in connection with the preliminary work of entering on the sheet while calling off the amounts, but also in connection with the later work of figuring and re-figuring the items.

14. *Subdividing the inventory.*—It is desirable to separate each individual department's inventory into as many parts as possible, up to the point where further division would mean confusion. This subdivision of the inventory makes it possible to catch mistakes easily.

Each page or sheet of the inventory is footed independently, no matter what system is employed; totals, or total sheets, are not carried forward in the ordinary way. This plan of keeping separate totals makes it easier to locate mistakes and check whatever part of the work may need checking.

REVIEW

Why do merchants frequently give less attention to the care of their merchandise than of their cash?

Describe the processes which should be followed when merchandise is received by the store and marked up for selling.

Are reserve stocks desirable, and under what conditions are they necessary?

Explain the difference between a periodical and perpetual inventory? How do they supplement each other?

Describe the method of operating the perpetual inventory and the physical inventory.

CHAPTER VIII

ADVERTISING AND DISPLAYS

1. *What is retail advertising?*—Retail advertising includes everything done to create public sentiment favorable to a retail store, to draw trade to it, and to make customers satisfied with their purchases. Some merchants say that they do not believe in advertising. If they make this statement honestly, they have a mistaken idea of what advertising is and of what it does. A retailer who says he does not believe in retail advertising refers usually only to newspaper advertising. Newspapers are valuable advertising mediums for retail stores, but they are by no means the only ones. Every retail merchant advertises when he puts a sign in front of his store. If he is a good business man he also dresses his show windows attractively, with the idea of attracting trade. Furthermore, he displays his goods on his counters and shelves so as to emphasize the good points of his stock. And he often calls attention to goods by means of counter cards, wall signs, display racks and demonstrations. Finally, the good retail store is permeated by an atmosphere of courteous service, which in itself possesses a definite advertising value. Every man who sells a dollar's worth of goods is an advertiser, whether he knows it

or not. If he did not believe in advertising, he would tear down his signs, board up his windows, cover up his shelves, make kindling of the store fixtures, and do business with customers thru a hole in the wall.

2. *Starting right.*—Retail advertising takes many forms. There are many things, both inside and outside a store, which are really in the nature of advertising, and which contribute to the effectiveness of all store publicity. Advertising begins much further back than the writing of copy and the buying of newspaper space. Before any advertising can be really effective, the advertiser must be sure that his store is worthy of the trade he wishes to attract. Unless a store is attractive, unless it is so well-arranged that the visitor can shop in comfort, unless it is well-lighted, well-heated, and well-located, no newspaper advertising in its behalf can be successful.

3. *Advertising and store service.*—Satisfactory physical conditions in a store, however, are not the only things the retailer must provide before he undertakes printed advertising. The store service must be right if trade, attracted by advertising, is to be retained. The attitude toward the public must be one of courtesy on the part of every employe. It must be the expression of a genuine spirit of helpfulness—a real desire to serve the community. The right store service will provide a hearty welcome for every store visitor, it will embody a policy of "satisfaction guaranteed or money refunded," and it will provide accommodations, conveniences and comforts for the

customers. Finally, good store service will give to customers all the information that they want about the goods they buy. Good salesmanship, in other words, is an exceedingly important factor in the service of any store.

4. *Value of the newspaper.*—If the conditions are such as to insure the satisfaction of customers, the retailer has a choice of the ways by which to carry his story to the public. For many retail stores the most important advertising medium is the newspaper. The city dealer who is alive to his opportunities knows what newspaper advertising can do for him. Some merchants in the smaller towns, however, have not yet learned its value. The country merchant sometimes says: "Why should I advertise in the newspaper? Everybody knows me." Everybody may know him, but everybody does not know his goods and his services. His constant effort must be directed toward making the public know more about his store and his goods. Everything he does in a business way advertises him and his store, either favorably or unfavorably. By his own personal efforts he is constantly trying to induce more people to trade with him and to make his old customers buy more goods. Newspaper advertising enables him to do on a large scale exactly what he is continually doing personally on a small scale. It enables him to tell his trade story to a larger audience than he could possibly reach thru his personal efforts alone.

5. *Intermittent and continual advertising.*—Some

merchants who are convinced of the power of newspaper publicity are not convinced of the necessity of advertising continually. Intermittent advertising is better than no advertising at all, but it is not the best kind. The best advertising is that which continues thru good seasons and bad seasons, and which persistently keeps the store and its goods before the public. No reader of a newspaper sees all the advertisements in any one issue, and no store that advertises only occasionally can hope to have its advertisements come to the attention of all the people it wishes to reach. The store that impresses itself upon the public's consciousness in such a way as to insure its permanent success is the one that tells its story continually. The intermittent advertiser runs the risk of having his competitor talk when he is silent.

6. *What to advertise.*—It is a mistake for a dealer to refrain from advertising until he has a special price offer to make. Advertising a "sale" is the least profitable kind of advertising. Advertising is best used to bring people into a store to buy regular goods at regular prices, rather than special goods at sales prices. There is no worthy store in which there are not many matters that could be made the subject of interesting advertisements. The service of the store—that is, the special features of this service as compared with other stores—is something a store may advertise. It is essential, however, that the service be presented in an interesting way. The public is not primarily interested in anything that does not pertain to its own

welfare and happiness. This fact renders obvious the necessity that a store make the advertisements of its service interesting to the public.

7. *Must each advertisement pay for itself?*—Some merchants make the mistake of believing that every advertisement must pay for itself. They should not expect this any more than they expect their investment in an attractive store front to pay for itself in increased trade within one day or within one week. Advertising is an investment. It is sales insurance. A traveling salesman calls on many people. He does not make a sale every time he makes a call, but he does not for that reason refrain from making many calls. He knows that the more often he tells his sales story, the more sales he will make. The seed sown on one trip, even if not immediately fruitful, may result in a harvest of orders on future trips. So it is with advertising. The power of advertising is cumulative. Its influence may be felt perhaps weeks or even months after its publication. The dealer may be sure that every good advertisement pays. Keeping everlastingly at it brings rewards in advertising as in every other effort.

8. *Store news.*—Retail advertising is store news. This fact is not understood by the retailer who thinks he is advertising when he pays for a standing "card" like this:

John Smith
Still at the same old stand
Good groceries at fair prices
Give us a trial

This is not advertising; it is a gift to the publisher of the paper. Much ineffective advertising is due to a lack of knowledge of the true function of newspaper publicity. Some advertisers seem to think that readers seize the local newspaper and turn the pages in an attempt to find out what dealers in town sell groceries. They forget that people read the newspaper because they expect to find news in it, and that anything that is not news stands but a small chance of being read.

9. *Change copy often.*—If advertising is news it should be treated like any other kind of news. No editor would permit the same local story to appear in the same place in his paper in two, three, six or fifty editions in succession. An editor, however, will often encourage the running of a piece of store news in the same unchanged form from two to fifty consecutive times. The local store news that can be used effectively more than once or twice is rare indeed. No really successful retail advertiser permits his copy to appear again and again in endless reiteration of the same story. Each piece of copy ordinarily serves its purpose once, and once only.

10. *Put interest into copy.*—Advertisements must be interesting if they are to be read. No real newspaper ever published a news item like this: "Some people came to town from Milwaukee yesterday." Such a statement is wholly without interest, because it is general rather than specific. Yet the store news columns frequently carry just as uninteresting state-

ments. For example: "A new line of goods just in. Come and see them." "A shipment of furniture just received." These statements are no more interesting than the bare statement, "Some people came to town from Milwaukee yesterday."

To be interesting, the news item referred to should read somewhat as follows: Jones and Thomas Smith, former residents of this city, came from Milwaukee Sunday to spend the day with friends." The statement must be specific. In like manner, instead of the bare announcement, "A new shipment of furniture has been received," there must be specific statements about the furniture: "New furniture, beautiful, sturdy and inexpensive. Mahogany tables for the library—massive, strong, and handsome—unusual values at $25. Divans upholstered to match that parlor rug, with springs that delight the tired body—just what you have been looking for, and only $60."

11. *Individuality in copy and display.*—It is true that the copy in the advertisement must be interesting if it is to be read. But what if the advertisement is not even noticed? What is there about the advertisement to attract the attention of the casual reader? Individuality in the display, "something different" in the copy and the layout of the advertisement, help to secure the necessary attention. Even if one of Lord and Taylor's advertisements should not bear the firm's name many would still identify it because of the type display, the border and the general atmosphere of the copy. The large department stores of the country

have come to realize the value of creating an atmosphere of individuality around their advertising. They use the same border, type display, arrangement and style in their copy day after day until finally they have succeeded in creating individuality for their advertising and consequently for their store. John Wanamaker's, B. Altman's and Lord & Taylor's advertising are excellent examples of individuality in both copy and display. And the same results can be obtained by the small general store, no matter what the size of the community may be.

12. *Letters and circulars.*—Altho newspapers are the most valuable and the most widely used advertising mediums for retail stores, in smaller places there are often no local papers, and in larger ones some stores cannot use them advantageously, because they are situated so far away from the central shopping district that advertising would be unprofitable. The store that cannot make effective use of newspaper advertising is by no means cut off from all advertising opportunities. Furthermore, stores which use the newspapers frequently wish to supplement newspaper advertising with other kinds of publicity. There are many mediums which can be used in such circumstances.

Among these mediums first place should be given to letters from the storekeeper to his old customers and to possible customers whose trade he wishes to secure. Circular letters or personal letters carefully prepared and containing a real sales story, sent at

frequent intervals, are among the most effective kinds of publicity the retail merchandiser can use. Attractively printed circulars, mailed to a carefully selected list of names, serve often the same purposes. Circulars distributed by hand and left on doorsteps are seldom effective. To accomplish their purpose circulars must usually have back of them the prestige of the mails.

13. *Store papers.*—Many country stores that are unable to use newspapers, publish store papers of their own and consider the use of them profitable. These store papers are small periodicals, published at weekly or other intervals, which contain items of interest to residents of the neighborhood, and which also carry well-displayed and well-written advertisements of the goods to be found in the store. There are also the small catalogs and pamphlets, which are similar to the store papers. Some retailers send each week to their mailing list a small folder that describes some particular line of goods or service peculiar to their respective stores. Such a folder takes the place of a large and expensive catalog, which is too costly for the average retailer.

14. *Other mediums.*—There are, in addition to the advertising mediums already described, many others available for the small advertiser. The telephone provides an admirable opportunity for the live retailer to tell his story personally to a large number of possible customers. Street-car cards are also used advantageously by the city neighborhood store situated

on a car line. In the smaller towns, cards in the interurban cars serve a useful purpose if they are carefully prepared and frequently changed.

15. *Use of dealer helps.*—Almost every retailer in the United States receives countless numbers of so-called manufacturers' aids or dealer helps. Many dealers can testify as to their inability to use all the helps they receive. Then, too, some of this material is so poor in quality that it is unfit for display in the average dealer's window or store. When this is the case, the retailer should notify those manufacturers or jobbers who are sending unsatisfactory helps. By doing so he will assist in eliminating the tremendous waste in this kind of advertising material.

On the other hand, there are many manufacturers' and jobbers' displays that deserve to be intelligently used by most retailers. The retailer who receives them should be glad of the opportunity thus afforded him to link his own advertising campaign with that of the manufacturer. He is saved the expense of preparing his own window display. Good displays can always be used to advantage.

Retail advertising should express the individuality of the advertiser and of his store. If that individuality is of the sort to attract trade, intelligent advertising is certain to bring results.

16. *Display advertising.*—It is generally recognized that the average customer is influenced in making purchases by advertising or by seeing goods displayed in windows, show cases or on a counter. Most

retailers pride themselves on the fact that they do not solicit sales thru personal salesmanship, house-to-house canvassing, or thru direct appeal to the passer-by. The day of beckoning a person to enter a store, or of urging the person once in the store to buy, is gone. Therefore it is apparent that the selling success of the store depends largely on advertising and on displays. This latter term refers specifically to the display of merchandise both inside the store and in the windows. Hence the term, display advertising.

17. *Guiding principles that govern interior displays.*—The first principle to observe in arranging displays is that goods should be displayed within the natural range of vision of a person passing thru the store. The customer cannot see goods that are more than seven or eight feet above the floor, without craning his neck, except at long range. He is not likely to see them at all when the goods are on the floor or only two or three feet above it. Most people can concentrate on only a few objects at one time. Since this is true, it is desirable to display only a few allied objects in any one group.

Everything in the display should be harmonious—the assortment of goods, colors, sizes, utility, price, range and the like. Jarring effects of any kind are undesirable.

The whole display should be arranged so as to present a complete selling campaign. It should so attract the attention that the passer-by will stop and look; it should create enough desire to lead him to in-

quire concerning it, and it should, if possible, convince the customer that he wants the merchandise. The salesperson may then stimulate the customer to action, by asking permission to show the customer the goods. An entire sales appeal is in this way consummated.

Displays should be changed frequently—the arrangement of the store as a whole, as well as the display of goods in each part of it. People get tired of seeing the same things year in and year out. Realizing this fact, shrewd merchants spend considerable sums in moving things about occasionally and in changing the arrangement of the store equipment. A customer is sometimes annoyed to find a department moved to some other part of the building, but the advantage of a change more than counterbalances this occasional resentment.

18. *Aids to interior displays.*—Reference has already been made in the chapter on Buying to the necessity of correct arrangement of departments or lines. This is really a form of interior display, for often it is the merchandise itself that is the attracting force. Therefore, good display work must begin with effective arrangement of the store as a whole, including the use of modern fixtures and other equipment for displaying the merchandise.

Next comes the use of display racks and forms and of signs and counter cards. It is only within recent years that dealers have learned the superior value of "selling" signs as compared with "price" signs; yet

it costs little when making a sign, to add a bit of selling argument—as, for instance, the reason for the special price.

Finally, there are the general interior displays. It is surprising to see the number of blank and unattractive walls and unsightly corners in most stores. There are enormous possibilities for displays in elevators, on stairways opposite elevator entrances, and at such other vantage points as balconies and stair landings. A store can as easily be a thing of beauty thruout all its selling departments as any private home. Rugs, lamps, pictures and the like need not all be in their respective sections. In fact, they sell better when displayed individually with other things than when grouped together in departments. Customers travel long distances to see the Easter decorations at Marshall Field's and Wanamaker's; and the things they admire are the things that are for sale. Therefore, the interior displays serve a double purpose, in that they produce an impression on the public that results in more sales, and also help to bring people to the store. When they are there, the display often makes them customers.

19. *Window displays.*—Everything that has been said regarding interior displays applies equally well to window displays. To build window displays is much easier than to arrange interior displays, because the space is designed for display and nothing interferes with the most effective grouping of the goods. Light, background and floors lend themselves readily

to window displays; while aisles, counters, pillars and the necessity for allowing space for both customers and clerks, interfere with effective interior displays. Manufacturers and jobbers are so anxious to cooperate in window-trimming that much, if not all, of the equipment can be obtained ready-made and gratis.

It is easy to study the display methods of most successful stores. It is not so easy to find out the buying methods or the accounting methods of a merchant, for he frequently considers these a part of his stock in trade. But his display methods he cannot hide. The more they are studied the better he likes it, because, like his advertising proper, they are only successful when they attract enough attention and arouse enough interest to get the customer into the store. The more they are talked about, the more nearly will they accomplish this purpose, providing they create the desired impression.

REVIEW

In its most general sense, what would you include under the advertising of a retail store?

What are the prerequisites of successful printed advertising?

Describe the best methods for retail stores to use in newspaper advertising and the mistakes which they should avoid.

How may direct advertising be effectively used? What are store papers?

Discuss dealers' helps and their usefulness to the retailer.

State the most important considerations in arranging interior displays.

What advantages have window displays over interior displays?

CHAPTER IX

DEPARTMENT STORE AND SPECIALTY SHOP

1. *Point of view.*—The general discussion of retail methods in the preceding eight chapters has been mainly from the point of view of the general store, as it seemed the best type for the purpose. In the remaining chapters it is intended to take up each type of store and survey it as a unit so that the reader may get a definite idea of how each type is organized and operated. It will readily be seen that the method must be dependent on the type of store and the conditions under which it is operated, and that methods suitable for one type are not adapted to another.

2. *Development of the department store.*—The general store developed as the country was settled. Directly after the Civil War, as prosperity returned, the department store arose. It is only an enlarged general store, departmentized.

Therefore, in our discussion of department stores the modifications from the methods of the general store which is fully departmentized are few. What differences there are result from the increased size. The general store seldom does a business over $100,000 annually tho there are a few, such as Garver Brothers in Strassburg, Ohio, which do a business of half a million. When the store gets larger, the simple de-

partmentization, applying only to the arrangement of stocks and segregation of accounts is insufficient, and each department must be run as a separate store with a department manager.

3. *Selling field and policies.*—Consequently, the method of analyzing the selling field and the competition, and of determining the merchandising policies remains the same for the department store. In fact some of the best work of this sort has been done by such department stores as William Filene's Sons Company of Boston, and various others scattered thruout the United States. In other cases equally good work has been done for department stores by advertising agencies, as a basis for planning their advertising campaigns.

4. *Organization and financing of department stores.*—The discussion of organization and the organization chart given in Chapter III will apply equally as well to a small department store, and with further departmentization and subdivision of executive functions, to a department store of any size.

Nor need any further comment be added upon the financing of the store because the increased size simply intensifies the problem. There are also compensating advantages from size; for instance, a big store becomes so generally known thruout the country as to make it possible to sell its commercial paper in any part of the country. Manufacturers are so anxious to sell large stores that they will sometimes offer as an inducement greater discounts or longer terms

and this makes the financing of the store less difficult. At the same time, the large department stores are better equipped to handle collections from their customers, and are more independent in this matter than the average general or specialty store. This, of course, facilitates the use to which their working capital can be put because it is kept moving all the time.

5. *Operating the department store.*—Size has a disadvantage in operating the department store for it is difficult to get the new recruit to do things the way the proprietor would like to have them done. The spirit of the organization has to travel so far from the general manager to the salespersons that it is weakened by the time it reaches them, and they do not feel its importance. Nor could it be expected, even if the general manager took time personally to train an eight-dollar salesgirl, that she could appreciate, much less follow, the ideals and policies developed by the eight-hundred-dollar-a-week manager. As a result it takes all the ingenuity of the manager with his big financial, merchandising and advertising power to prevent the salesgirl from driving away the business which he has taken so much pains to bring in. But conditions of this sort are improving, thanks to the elaborate systems for employment and training.

A great many interesting problems arise in connection with the operation of the department store. One is that of speeding up the service so as to complete each sale more promptly. It is a hard problem to solve because of the elaborate system necessary to

do this. Some concerns have adopted specialty-shop methods, such as allowing certain clerks in certain departments to deliver charged goods without waiting to have the charge authorized by the credit department. In another store an enlarged price ticket is used, a part of which serves also as a sales slip so that no sales slip is necessary. More and more department stores are giving up the unit operations in which several persons handle the sale, including both merchandise, sales slip and money, and are requiring one or two people to do it all, in order to speed up the service to the customer.

6. *Delivery system.*—There is another serious problem in the delivery system. The demands made upon it both as to the ratio of "sent" to "taken" articles and the increased cost of each delivery are making the expense a greater burden each year. It seems probable that some system of direct charge for the delivery of each package will be introduced.

From an operating standpoint, the delivery problem is becoming easier with the improvements in motor trucks and automatic carriers in the store itself. Where accurate cost figures are kept by stores, the delivery expense varies from five to seven cents for each package. The method of handling packages within the store has become easier with the installation of modern equipment such as gravity conveyers, belt conveyers, spiral shutes, to say nothing of freight elevators capable of carrying a ten-ton truck to the top floor where it may be loaded with a suite of furni-

ture without bringing each article to the delivery room in the basement.

7. *Mail-order departments.*—The function of the mail-order department is to act as agent of the customer. Therefore, each order as it is received is assigned to a mail-order shopper, who goes to the counters just as customers do and buys the goods which have been ordered by mail. The goods are sent thru the regular delivery department.

Catalogs and special letters are used to attract business. Sometimes a special stock of merchandise is used for mail-order purposes. The object in doing this is to guarantee a supply of the goods offered in the catalog. If these goods were also offered over the counter and proved especially attractive, every article might be bought up before the first mail order came in. In fact, this has happened so frequently that most department stores maintain special stocks in lines such as women's wear, in which style plays so important a part in the selection that a substitution is impossible.

8. *Merchandise office.*—Theoretically, in a department store each buyer should be able to merchandise his own department; but few buyers are also merchants in the broad sense of the word. Buyers are generally opportunist, while a merchant must be constructive. Merchandising offices are created because department stores contain too many buyers and too few merchants.

The merchandising office is the safety valve of the

modern department store. As such stores are organized today it is an economic necessity. When properly organized and intelligently administered it is the greatest determining factor in the success or failure of the business.

9. *Advertising practice.*—Concurrently with the development of the department store, came the rise of advertising. The proprietor himself usually did the merchandising but he had neither the time nor the ability to look after the advertising. Consequently, he appointed an advertising manager as one of his first assistants, on an equal basis with the superintendent and the records manager. With the recent development of the merchandise manager as one of the first officials, there has developed in many stores a point of conflict between the merchandising and advertising functions. The advertising is really only another form of selling. It makes a general appeal while the over-the-counter selling is personal. Therefore, if the merchandise manager is to have charge of both the buying and selling function, it is logical that he should have supervision of the advertising. That is undoubtedly the tendency in department-store organization at the present time, and the same conditions apply to the supervision of interior and window displays, since the latter is only another form of the selling appeal which has grown up under conditions similar to those related to the advertising. Unfortunately, or perhaps fortunately, the strongest personalities upset ideal methods of

organization, so far as domination of the establishment and its policies is concerned. There are cases, for instance, in very successful stores, where the man having the title of advertising manager is the real merchandiser and the man having the title of merchandising manager is subordinated to the former.

10. *One-line or specialty stores.*—The store that carries only one line is called by several names—most commonly the specialty shop, but sometimes the one-line or the single-line store. It is a store that specializes in a single line, or in two or three very closely allied lines, such as shoes and rubbers, hosiery and gloves, and so on. One-line stores may be neighborhood or community stores, such as a village jewelry store or a small retail jewelry store in a residential section of a city. They cater to the needs of the average resident in the district in which they are located. Sometimes they cater to passers-by, as for instance, the haberdashery in the Grand Central Station in New York City or the one on Wall Street in the same city. Or these stores may cater to a select group within a city, as an exclusive millinery store on Fifth Avenue in New York City or on Michigan Avenue in Chicago. But there is little difference between these types; each is a single-line store catering to only one group or class of people. We may therefore safely consider them as comprising a single group.

11. *Analysis of territory and competition.*—It is even more necessary to analyze the territory than in the case of a general or department store, because the

appeal is to one class of trade only and the risk of failure is greater. In a village store the proprietor can do this without much effort because the radius of operation is small and a large percentage of the people are already known to him. The method described in a previous chapter is readily adaptable to the purpose; and the same is true of his study of the competition.

In the city store, the problem is a bigger one, as is evidenced by the fact that so many specialty shops fail. Persons guess there is, for example, enough trade to warrant a high-class millinery shop, only to find when the business fails there is not. Generally such stores are organized by former employes of other specialty shops who are able to take part of their trade with them to the new store. Failures result from an overestimate of the amount of trade they can take from their old connection or of the additional new business which they can secure. With failure impending it is necessary to make the analysis. The total trading population within the price ranges decided upon should be tabulated, and the competition taken into consideration in order to show the possible business the new store can depend upon.

One of the most serious problems of the specialty shop is that of location. It has been frequently proven that one side of Broadway or of Fifth Avenue in New York is very much better than the other. This is the result of several factors. In the case of Broadway, when walking either north or south, there are fewer obstructions to continuous travel on the

west side below Fortieth Street, tho the Times Building obstructs continuous travel north of Forty-second Street on this side. Crossing the street is difficult at the busy Forty-second Street corner and as a result many people walking north naturally cross over around Fortieth or Forty-first Street, to the east side of the street, and continue up on that side. For this reason the most interesting shops are on the west side below Fortieth Street and on the east side above that. They tend to perpetuate the difference in retail location values. On the prosperous side of the street the buildings are better than on the other, tho this is an effect rather than a cause. At present it is helping to perpetuate the differences.

One of the first policies to be settled concerns the class of trade that a firm shall cultivate. A certain Detroit clothier, in analyzing his territory, figured that the best men's-wear trade came from residents of the northern part of the city in the section along Woodward Avenue. He decided, therefore, to cater to this section. He analyzed it carefully in order to ascertain the clothing requirements of the people. Then he studied the retail section and decided that the west side of Woodward Avenue about a block north of the center of the retail section would be the best point to locate his store.

12. *Marketing policies.*—The specialty store succeeds because of certain well-defined policies more than for any other reason. The success of the store service is based on convenience of location, complete

stocks, personal service, frequent turnovers and low expenses; while the method of operation is based on a limited trade, limited advertising, buying in small quantities and frequently, on exclusiveness or the ability to offer novelties.

13. *Organization and financing.*—The specialty store is usually a one-man affair and consequently is generally organized as a single proprietorship. It has a better credit standing than a corporation, and if to this is added well-known ability on the part of the proprietor, the store can get any needed credit on the basis of a small capitalization. Almost any jobber will back an honest young store clerk in the financing of a specialty store if he believes the location and general conditions are satisfactory and the young man capable of running the store.

14. *Buying for a specialty store.*—It is assumed that in organizing the store a merchandise plan or operating budget has been developed after the fashion previously described. Specialty shops offer a wider variety, especially of novelties, in the line carried, than the corresponding general or department store. For this reason the main problem in buying is to maintain such a standard. The specialty shop proprietor must spend proportionately more of his time in buying because of this, and likewise because of the fewer offerings that come to him because of his limited buying capacity. Buying is undoubtedly the biggest problem in the specialty shop.

15. *Stockkeeping.*—As a rule no reserve stocks are

carried. Because of the difficulty of his buying problem the proprietor spends all his time except during the very busy hours, from eleven to one and from two to four or five o'clock, working over his stock and hunting up new lines. Everyone employed in the store knows every bit of stock in the place. Perpetual inventories are nearly always kept in the manner described in the preceding chapter, and usually complete records are kept of each customer's purchases in order to get an idea of what they really desire.

16. *Accounting.*—There are more sources of help in accounting for single-line stores than for any other type. One of the most notable contributors is the Harvard System of Accounts for Shoe Retailers. In attempting to gather data on the retail shoe industry it was found necessary to get retailers to adopt a uniform system of accounts because the data collected from different stores did not represent the same thing. There was no uniform classification of the elements of expense. It was finally decided that this work should be done by a joint committee composed of accountants of national reputation and a few of the most prominent merchants in Boston and vicinity. The result, in the form of a booklet containing the necessary ruled forms, was made available for retailers early in the year of 1912. Similar systems have been worked out by them for other lines and may be obtained at a nominal price by addressing Harvard University, Cambridge, Mass.

A number of well-known manufacturers have issued much valuable literature on the subject of retail accounting. The National Cash Register Company of Dayton, Ohio, has worked out systems based on the use of their machines, for practically every kind of retail store. This information is freely given to anyone interested, and a number of successful accounting systems have been based upon it. The firm of Robert H. Ingersoll and Brother of New York City has given to the trade a "System of Retail Accounting for Jewelers," which has also been put to good use. Hart, Schaffner and Marx of Chicago also have an excellent system for the retail clothier.

17. *Store service.*—The keynote of the specialty store is personal service. As a rule, the clerks know all their regular customers, their likes and dislikes, as well as their buying ability. Clerks know at once what to show each customer and frequently they make it a practice to notify them when new goods come in. Clerks have authority to deliver goods to charge customers without the authorization of the proprietor or credit man. Inspectors and wrapping clerks are dispensed with and the clerk does not leave the customer until the last detail of the purchase is finished and the customer is bowed out of the store. In every way the attempt is made to please the customer thru prompt, painstaking and personal service.

18. *Sales force.*—These stores call for a higher grade of salesperson than do the department stores. The clerk is a real salesperson, while in the depart-

ment store, the sale is generally influenced more by the advertising and display of the goods before the customer comes in. In the highest class of specialty store, commission systems of payment are customary. In village stores, even in good ones, it must be acknowledged that salaries are miserably low. The proprietor takes advantage of the few opportunities which young girls in villages have to get employment by giving as low a salary as the slight competition with other stores may make necessary. Training is given, if at all, by the proprietor or by older clerks, and a selling ability is more likely to be inherent than the result of training.

19. *Store building and fixtures.*—The modern specialty shop, whether, for example, it caters to the shoe trade of a small city or that on Tremont Street in Boston, is a model of its kind. Department stores realize this asset on the part of specialty shops and frequently build little shops within their stores, such as the Burlington Arcade or London Shop in Wanamaker's New York store. There can be no doubt that such surroundings, provided they are appropriate to the class of trade and the community, aid in making sales.

20. *Mark-up, turnover and prices.*—Most specialty shops must meet a certain competition from department and chain stores. The corner grocery is a specialty shop, and must compete in price, quality or service with the cut-rate chain store across the street. Owing to the wide variety of conditions under which

specialty stores operate, from the corner grocery in the tenement district to the exclusive gown shop on Fifth Avenue in New York City, no special applications of the principles of pricing, already discussed, can be given. The more important point is the turnover. Yet again that is relative. The corner drug store must take care of the needs in its district. If a customer asks for Kolynos Tooth Paste and it proves to be out of stock at the moment, the customer will go to the next nearest drug store for it. After a few such experiences, the customer will conclude that the store is poorly managed and transfer his trade to another store. The principles underlying a determination of turnover apply as well to the specialty shop as to any other type of retail store.

21. *Advertising.*—The buying public to which the store caters determines the advertising mediums. In the case of a village clothier the medium is naturally the village weekly. In the case of the neighborhood haberdashery in a large city, unless there is a distinctly local newspaper, the publicity is limited to handbills, signs and other forms of direct-by-mail advertising. The exclusive shop in the shopping center can well use the exclusive magazines of more or less national circulation, together with occasional space in the newspapers, which go to the homes in which the store appeals for trade. The greater part of the publicity of the exclusive specialty shop must be thru special announcements, displays, special booklets. Sometimes personal solicitation is used, especially by neighbor-

hood shops. The inability to use the usual means of advertising saves a considerable outlay. Department stores frequently spend from two per cent to five per cent for advertising while specialty shops frequently succeed without spending a penny. Generally, however, this saving is compensated for in other ways, so that the net result is neither an advantage nor a disadvantage.

REVIEW

Why must the preliminary analysis of the territory and the competition be more detailed for a one-line store than for a general store?

What are the permanent characteristics of the marketing, buying, stockkeeping service and advertising policies of the one-line store?

Describe the growth of the department store. What are the difficulties of financing, operation, deliveries and adjustments?

How are mail orders handled?

What is the work of the merchandise manager in a department store, and how is it related to that of the advertising manager?

CHAPTER X

THE CHAIN STORE

1. *Analysis of the selling field.*—The thoroness with which the United Cigar Stores Company and similar chain organizations make their analysis of the selling field and the competition has been quoted in business literature and is often held up as a model, as it really is. They follow all the methods described in the chapter on Analysis of the Selling Field and then add special methods of many kinds of which only a few can be noted in the limited space of this chapter. For example, when a store in the Great Atlantic and Pacific Tea Company system gets to the point of doing a business of $600 a week the traveling superintendent is expected to find a suitable location in the vicinity for another store. In another grocery chain system, possible locations are discovered thru a check on deliveries. When the amount in some section a few blocks away from a store, reaches a hundred dollars a week, the section is looked upon as a likely one for another store. It is analyzed and, if it appears to have possibilities of a business of $200 weekly within three months of its opening, a new store is opened, provided other conditions are favorable. If it does not reach the quota set in three months it is closed and the stock and fixtures are transferred to

some other new store which is to be tried out in the same way.

The kind of trade which the new store may find available is quite as important as the volume. In the location of their shoe stores, the traveling supervisors of the Hanan Shoe Company keep in mind that their stores must cater to people who will pay from $7.00 to $10.00 a pair for shoes. Therefore in checking up the passers-by they count only those who seem to be probable purchasers of their quality of shoes. Similarly, grocery chains check nationalities because of the effect of national traits on food purchases. The United Cigar Stores began with fundamental statistics. The average annual per capita consumption of cigars in San Francisco was estimated at $4.06, while in Milwaukee it is only $.22. It is obvious in which of these two cities they would first locate stores. The modern chain store analyzes the territory of each store in every other possible way. As it grows it acquires experience and establishes standard practice. It reduces the whole analysis to a regular system and is able to select cities, neighborhood and corners with speed and precision.

2. *Merchandising policies.*—One of the directors of the United Cigar Stores Company recently attributed the phenomenal growth of their chain to their success in building up the service end of their business. Courteous, well-trained clerks, who thank each customer—no matter how small the purchase—are far more effective in building up a chain than differences in price.

In building a chain-store organization the policy on service is one of the first to settle definitely. And once it is decided upon, it should be stated so explicitly that no employe can have an excuse for forgetting it. The United Cigar Stores Company and similar organizations prepare booklets which explain the store's policies on service and other topics, describe the store system and state the store rules. The following are some of the topics included in a store manual issued for use in the Liggett-Riker-Hegeman Drug Stores: Rules in regard to promotion; the handling of complaints; the importance of personal neatness and cleanliness; telephone service; how to care for the stock; how to get up window displays; the value of courtesy; the necessity for prompt service; no transaction is complete until the customer is satisfied; the future prospects of the employe.

The management of the chain-store organization must decide each question of policy in its relation to others. Recently a number of grocery chains have discontinued delivery service, believing that their particular trade would prefer to buy their groceries a bit lower in price and carry them home. In another chain in a different line similar cuts in service policies were made in order to reduce the overhead expense and make it possible to reduce prices. This chain claims to have cut two per cent from the expense of doing business and to have reduced prices accordingly. Whether such a policy will prove a wise one in the long run is doubtful.

3. *Partnership type of organization.*—The great problem in chain-store organization is to get the same intelligent effort from store managers and clerks that can be obtained in an independent store of the same type which caters to the same trade. Mr. J. C. Penney, who organized the Penney Department Stores thruout the Middle West, decided that the way to accomplish this was thru a form of partnership between the individual store manager and the central organization.

The plan is an ingenious combination of the partnership and the corporation. The parent company issues both common and preferred stock. The common stock, of which there is an issue of $1,000,000, is owned entirely by Mr. Penney and no dividends are paid on it. The preferred stock, of which $15,000,000 is authorized, is divided up into series. Each series is authorized to the extent of $15,000, and represents the total authorized capitalization on any one store. Every series is handled independently so that the profits of each store may be kept separate from every other store, and the dividends on the stock representing each store may be exactly the net earnings. Thus one store may earn and pay in dividends twice as much as a neighboring store.

4. *Getting the partners.*—The plan works simply. Whenever in any store a bright young clerk has saved up a few hundred dollars and gives promise of success as a store manager, the manager of the store and the clerk agree on the location for a new store and re-

fer the matter to the central organization in New York. If conditions seem to promise success, the new store is opened. Mr. Penney invests one-third of the amount necessary, the local manager and the new man who joined in the recommendation each one-third. In case the local manager or the new man cannot raise their full quota Mr. Penney loans it to them and takes their note. A new series of preferred stock is then started by investing the amount decided upon as necessary for financing the store in the preferred stock of the parent or central organization. The latter does all the financing of the new store from the fund received from the sale of the preferred stock sold and issued to the new store.

5. *Organization and operation.*—The organization is simple. Each store manager has full authority to run his own store. He writes his own advertising and hires and trains his own clerks. The central organization does the buying, and supplies the store manager with lists of merchandise available and from which he can choose as he pleases. All purchases are made of the central organization which has its headquarters in New York. Shipments are made direct to the individual stores from manufacturers. No salaries are paid to the half dozen or so buyers at the central office because they get their income from part ownership in stores. Store managers receive small salaries, never over $100 a month, but thru ownership in their own and other stores, some of them make as high as $20,000 a year.

There are many interesting points in connection with the organization. Every employe must be a clean-cut, earnest young chap who has the makings of a store manager and who has the ambition and the willingness to work. Each one must have served several years of apprenticeship and must have saved up several hundred dollars before he is allowed to open a store.

6. *Advantages of the type.*—Under the plan there is an enormous saving in central-organization overhead as compared with the usual chain-store system. The buying expense is almost nil and the supervision is so limited that a great saving results there also. In chain stores generally the central-office overhead runs from four per cent to eight per cent whereas under this plan it is said to be less than one per cent. The saving in buying expense is, however, largely a bookkeeping saving for the buyers are paid from individual store profits rather than in salaries from the central organization which, in turn, would come from charges against the stores. The saving in supervision expense is more real, for the stores can be run successfully without district supervisors and traveling auditors. Mr. Penney is said to have had only one case of inefficiency and no cases of dishonesty among his store managers during the fourteen years in which he has been in business. Of course, if he found it necessary to sell stock to the public or to use banking credit to any great extent, it would be necessary to have more centralized supervision of both operation

and finances, but as he has always found it possible to finance each new store himself out of profits of stores already running, that contingency has not arrived.

The power of the partnership idea is the real force back of the organization and, as a result, Mr. Penney has been able to secure the right kind of material for store managers, to train the men and to give them such profits that they become the most enthusiastic cooperators, while at the same time each man runs his own store. Thus, he has been able to combine all the advantages of individual store ownership and operation with a considerable number of the advantages of the chain-store system.

7. *Corporation type of chain store.*—In the more common type of chain store the initiative comes from the central organization. This is the true chain, whereas the Penney type is in reality a form of cooperative buying and financing plan.

The success of central organization is largely due to the fact that at headquarters experts able to work out the most efficient method are engaged, and little is left to the initiative of the individual store manager and still less to the store employes. Buying, advertising, training the sales force and the like are done at headquarters. The systems are devised there and accounts are kept there. Managers and employes at the stores devote their efforts to following the rules laid down in regard to stockkeeping and selling. High-salaried men at headquarters do the construc-

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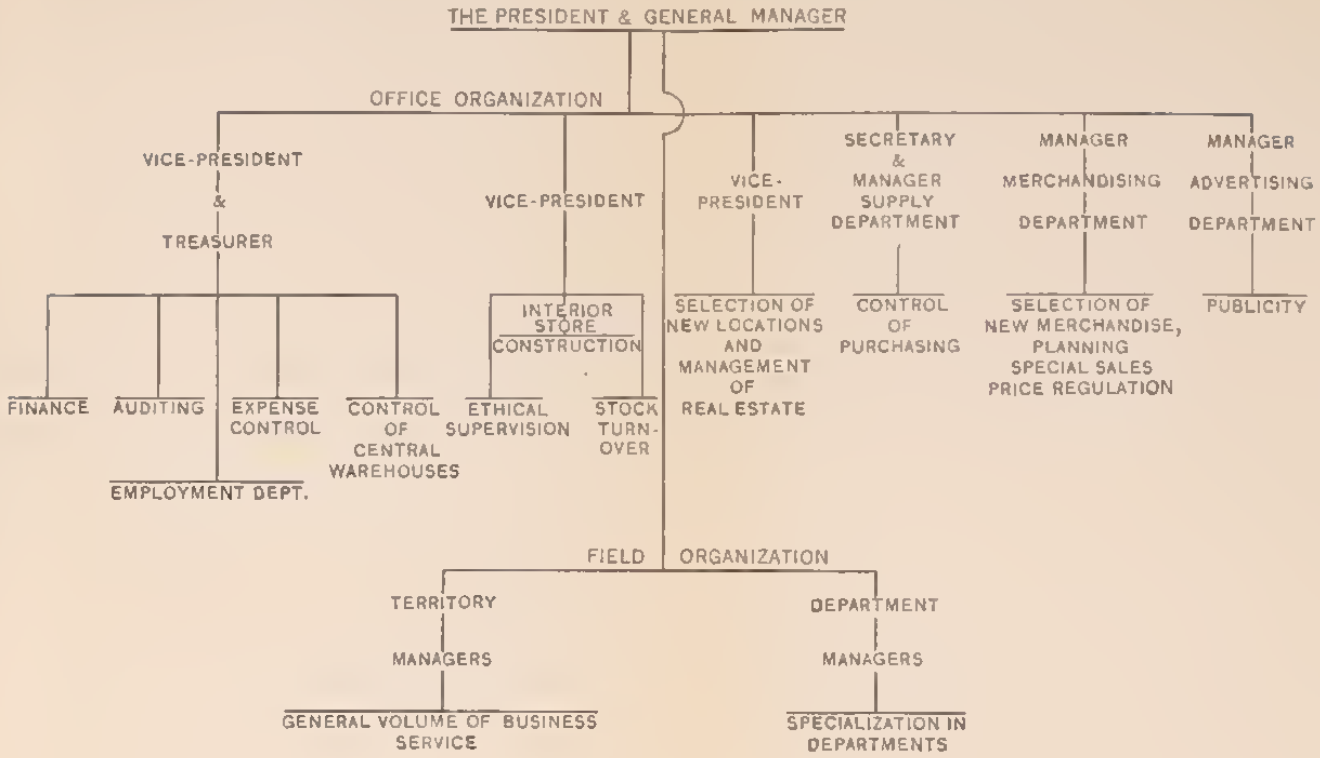
ORGANIZATION CHART OF THE LIGGETT–RIKER–HEGEMAN DRUG STORES



tive thinking. It is thus possible to operate with a lower grade of store employes and at a lower expense for salaries in each store than would be the case otherwise. Policies can be more uniform and control more certain in the corporation type.

8. *General plan of organization.*—The usual functions of buying, selling, accounting and financing appear in the chain store as in every other type of business. The distribution of these functions among the various executive officers may be obtained, at a glance, from the chart of the Liggett-Riker-Hegeman Drug Stores. While no two chain-store organization charts are identical, the general plan is always about the same.

The only peculiarity in this chart is found in the work called "Ethical Supervision." This refers primarily to the prescription-compounding department, but includes anything relating to the medical profession. One of its purposes is to build up the business thru the cultivation of the good-will of physicians and dentists.

9. *Real estate department.*—In a number of chain-store organizations a subsidiary company obtains, owns or rents and cares for the store sites and buildings. The United Merchants' Realty and Improvement Company is such a subsidiary of the United Cigar Stores Company. The real estate company buys or rents entire buildings when such a course is necessary in order to get a desired location, and then rents to the cigar store company any section it desires

and to other tenants whatever remains. Theoretically, the work can be done as well by a department of the chain-store organization as by a subsidiary corporation; and some drug and grocery chains are making as good profits from their realty operations as are the cigar stores. The problem is a little more difficult in the latter case, because the cigar stores want only a "hole-in-the-wall," as someone has called it, out of each corner store. Yet it is the corner which is taken, the very heart of the building. It is, therefore, more difficult to arrange leases so as to sublet any remaining part at a profit, than in the case of a drug store which will use all the ground floor and basement of a corner store and perhaps one of the upper floors. The real estate work, whether done by a subsidiary corporation at a profit of three-quarters of a million a year, as in the case of the cigar stores, or by a department of the central organization so as to show a corresponding profit above a fair rental, as in the case of the Childs' restaurants, is one of the most important parts of the central organization.

10. *Merchandising.*—The organization for merchandising is similar, in that one department selects all lines to be carried while another sees to the actual buying. This practice is also found in mail-order houses and has some advantages. The one who selects new lines is relieved of the actual purchasing and so can devote his time to the planning of all selling. He decides what can be sold to advantage and then leaves to another the task of purchasing. There is a

tendency to take longer speculative chances. When the buyer in a chain organization finds a bargain, he takes it, regardless almost of the quantity and then begins to hunt an outlet for any surplus beyond his selling possibilities.

11. *Supply department.*—The organization for the actual buying, or purchasing as it is called, is under the supervision of the manager of the supply department. The lines having been chosen for him by the merchandising department, it is his task to buy them at the best price. He scours the market for goods of the desired quality at the desired prices. One buying advantage of the chain store is in the form of special terms, either thru extra discounts or longer terms. Chain stores frequently control factories or own their own manufacturing plants. Others have their own jobbing concerns, or get inside prices direct from jobbers and brokers. The buyer of one chain carries his checkbook with him all the time and is ready to pay in advance when it will mean a saving in price. The manufacturer with good merchandise can always get cash immediately from a chain organization if he will make the price attractive; and many a manufacturer has been helped thru a tight place in just this way. New lines are often introduced thru chain stores which it would be difficult to market otherwise without a heavy expense in creating a demand on the part of the public.

12. *Central warehouse.*—Whether a chain organization should maintain larger reserve stocks in a cen-

tral warehouse or whether it should depend on drop shipments direct from manufacturers to each store, is a much debated question. In lines such as five and ten-cent novelties, being out of stock in any stock is not a serious problem, for something similar will generally satisfy or in case it does not, the customer does not take offense. Therefore, the F. W. Woolworth Company maintain only a small warehouse, tho their total business in 1916 was nearly a hundred million dollars. This results in an enormous saving both in warehouse and reshipping expense, in interest charges and depreciation on goods in the warehouse and in transit to the stores.

But when service and the loss of a sale is a more serious factor the central warehouse is more necessary. Therefore, drug and grocery chains generally maintain full stocks in a central warehouse. One of the smaller chains, the Childs' Grocery Company, at Camden, New Jersey, employs over one hundred persons in its warehouse.

13. *Control of warehouses.*—In the Liggett organization, the central warehouses, from which the stores thruout the organization are supplied with merchandise, are managed by a depot manager who is responsible to the vice-president treasurer. The reason for this connection is, first, that the auditing system adopted by the company, and which is under the control of the treasurer, shall be carried out in the depots, and, secondly, because of the necessity that the treasurer should control the question of invest-

ment. It will be seen later that the organization depends largely for its success on the system of checks and counter-checks presented by the apparent interrelation of departments. The control over the depots by the treasurer acts as a check upon any tendency on the part of the supply department to overbuy.

14. *Planning special sales.*—The manager of merchandising must plan the selling activities of the chain, in cooperation with the organization. Some years ago the sales manager of a drug chain conceived the idea of the one-cent sale as a means of moving an oversupply of their own private brand. The plan was to give two bottles of a fifty-cent toilet water for the price of one plus one cent, or a total of fifty-one cents. It meant a reduction from fifty cents to twenty-five and a half, but to each customer was sold twice the usual quantity in a single sale. Several manufacturers concluded this would be a good way to advertise, charging any loss to publicity as a sort of sampling in which the customer pays at least the prime cost of the samples. Several manufacturers asked to come in on the sale and it has become a regular feature with many chains for the purpose of introducing new lines and of disposing of overstocks of goods. The plan is at once to the advantage of manufacturer, retailer and consumer.

15. *Employment and training.*—Most of the big chains maintain a large employment department as a part of the sales-manager's organization at head-

quarters, tho in the chart shown, it is assigned to the financial manager. This is due to his previous experience in the work rather than to inherent functionalization. Here all salesmen for the stores are selected. Mr. Petermann of the United Cigar Stores interviews many thousand applicants each year for positions as salesmen in the United Cigar Stores. Out of this number, only one out of every hundred survives the test which he gives them, and only four-fifths of one per cent permanently make good.

The big chains usually find it necessary to train all new salesmen at headquarters. New men attend the training school for a week or two, and then are given two weeks' experience in one of the stores. Then they are brought back to the training school for another week of instruction, in order to round out their training after contact with a store. Such training schools are not considered as necessary in grocery chains which do business largely on the price basis. However, it is worthy of note that instances have occurred in which companies have closed their doors one afternoon a week, so that the salesmen might take advantage of educational classes. Particular attention is being given by this new chain to training neat and courteous salesmen who know their merchandise thoroly. Some chains prefer to put the new men in the store at once and let the store managers train them. When a young man enters the Woolworth Company, he is started in a store basement where he

learns all about the merchandise. It takes about three years to train a manager, and during that time the new man will have worked in each different department in at least five or six stores.

16. *Keeping in touch with employes.*—The sales manager must keep in touch with his men thru letters, bulletins and house organs, and thru the personal visits of himself or the district manager. Of course, the salesmen are encouraged to boost their sales continually thru various contests, in the hope of increased salary, and the desire to have their good work complimented in the house organ. Most chain stores pay their salesmen on a salary and commission basis in order to stimulate the sales as much as possible. The United Cigar Stores pay their men on a salary basis and then divide among the store salesmen and the manager, a certain percentage of the increase in sales over the corresponding month of the year before. No commission is paid to the men if there is any shortage in the cash or discrepancy in the accounting records. Naturally, this binds the store salesmen together, and makes each one responsible for the other's mistakes.

17. *District manager.*—In a large chain the supervision of individual stores is largely in the hands of the district or territory managers who have charge of all stores in a section. In the case of districts at some distance from headquarters the district managers have considerable discretionary power. They countersign requisitions for goods, and in fact generally do the real merchandising of each store under their supervi-

sion. They investigate all complaints and even take time to call on dissatisfied customers. On each trip to each store, they make a complete analysis from the back door to the front including the cellar. In the final analysis their function is to keep up the volume of business and the quality of service. Various modifications of the general plan of supervision are found in different chains.

18. *Department managers.*—In the Liggett-Riker-Hegeman Drug Stores each store is departmentized and every detail of each department is followed up thru the auditing system so that not only is the business of each store known in detail, but the executives are able to tell in what lines each store is gaining or losing. To aid in maintaining each department at its highest possible standard, specialists have been appointed for the various departments. For instance, a man who has a national reputation as an authority on toilet goods specializes in that department. Another man who is not only a very able merchant, but also has practical knowledge and experience in the soda and candy business, specializes in these departments. It is the duty of each of these department heads to visit the stores thruout the chain with a view to working up his department. These department managers, like the territorial managers, are responsible to the president.

19. *Advertising and displays.*—The advertising manager is usually, directly under the sales manager, and has charge of all advertising, both for the private

brands of the chain, and for each store in the chain. A corps of men at headquarters draw up all new plans and write copy, circular letters and the like. Sometimes a printing and art department is included.

All window displays are usually planned and prepared at the home office, tho in a few cases the work is done by a subsidiary corporation. The display manager has charge of getting up all new ideas for such displays under the direction of the sales manager. The dimensions of the windows in each store are on file at the home office, so that the display manager can prepare the display in all its details and simply ship it to the store with instructions to the store manager how to set it up.

20. *Mail-orders and local agencies.*—Some of the chain stores are now going into the mail-order business. The Kresge Company, of Detroit, which operates a big chain of five-and-ten-cent stores, is now reaching out for this kind of trade. The local stores in the J. C. Penney chain operate a mail-order business, which very often runs up as high as a thousand dollars a month. They feel that they have simply made a beginning in this field.

Closely associated with this is the exclusive agency as another means of selling business in communities too small to support a local store. It is interesting to note that many of the chains are now considering taking up national advertising. The United Cigar Stores have already started their campaign, and plan to spend $250,000 during the first year for an adver-

tising campaign in support of their mail-order and exclusive agency business. Proprietors of drug and other stores taking on one of their agencies are able to secure the benefit of all the United Cigar Stores' plans and methods, even the assistance of the real estate department in picking a store site, and the display manager's ideas in regard to trimming their windows. Once more this is a case where the independent merchant is learning from the much hated chain.

21. *Store manager.*—In almost all chain organizations, the store manager spends most of his time in actual selling, for the merchandising is done for him. In a grocery chain, the store force frequently consists of a store manager and a delivery boy. The traveling superintendent gets to each store daily, checks up the business and the stock and puts in the requisitions for goods. The manager deposits all cash receipts in a local bank, except in some chains in which he is allowed to pay directly the salaries and incidental expenses, and mails the deposit slip to the treasurer along with the vouchers for any money paid out and a daily report of sales, stock on hand and expenses.

22. *Stockkeeping system.*—Each of the store managers is given very careful instructions as to the necessity of keeping his stock in good order. Inventories are usually taken about once a month in lines like drugs and cigars. When new stores are opened up, or in stores which are not paying as well as they should, inventories are taken more frequently. Very

often, men are sent out from headquarters to take the inventory of the stock so that the manager of the store does not have to bother with this at all. The manager of each store is, of course, personally responsible for all goods from the time he signs a receipt for them until they are sold.

One of the simplest systems is found in a chain of meat markets. All goods are charged to each store at cost plus an overhead to cover the central organization expense and the prices for each kind of meat and each cut are set by the central organization from day to day. On Saturday night after the store closes, a complete inventory of stock on hand at cost is made. Quarters of beef partly cut are estimated pro rata according to the value of parts remaining in proportion to the total cost. This is subtracted from the total of the goods on hand at inventory a week previous plus the cost of the goods delivered to the store during the week. This gives the cost of goods sold during the week. To the total of the sales is added the value of scraps on hand and from this is deducted the expenses of the store for salaries, rent, advertising, and likewise the cost of goods sold as previously figured. The balance is the net profit of the store for the week. The following is an illustration:

Inventory at close of business on Saturday night, November 4, 1916, at cost (including scraps)	$ 500.00
Merchandise received by store during week of Nov. 6–11, 1916, at cost	800.00
Total	$1,300.00
Inventory at close of business on Saturday night, November 11, 1916, at cost (including scraps)	450.00
Cost of goods sold during week of Nov. 6–11, 1916	$ 850.00

Receipts from retail sales	$ 950.00
Receipts from scraps sales	25.00
Total receipts	$ 975.00
Expenses for salaries, rents, etc	100.00
Net receipts	$ 875.00
Subtracting cost of goods sold	850.00
Net profit for store for week	$ 25.00

In a grocery system it is customary to charge each item to the store at the retail price and then at inventory on Saturday night the store manager must be able to turn over an account for each item received, by producing it or the equivalent in cash receipts. Such a system is, of course, more exact than the meat market system just illustrated.

23. *Control of stock turnover.*—To each store a standard stock, based on its volume of business, is given on which the manager is required to do business. It is part of the vice-president's duty to see that that standard is just and adequate, and is maintained in such a way that there shall be no loss thru unnecessary investment, or loss of business thru lack of merchandise. This control acts as a check against rash buying on the part of the store managers who are expected to merchandise for their respective stores.

24. *Accounting system for store.*—Practically all chain stores are run on a cash basis, and all the general accounting is handled at headquarters. So the only accounts kept by the store manager are the records on carbon copies of goods obtained, the totals of sales from the cash register and the totals of expenses from vouchers.

The following are the records made up by each store manager:

(1) Comparative sales record by stores, and by departments of stores, weekly (7 day, 14 day, 21 day, 28 day) and cumulative for month.
(2) Monthly reports of stock—purchases against sales—and stock on hand at end of month.
(3) Monthly report showing standing of each store in detail—sales, expense, profits.
(4) Inventory of each store 4 or 5 times a year.

25. *Accounting system for central organization.*—An elaborate system of accounting is required in the central organization. In one chain it consists of the following records and reports:

(1) Daily receiving sheets. Showing, by departments, all goods received from all sources of supply.
(2) Daily sales report. Showing receipts, by departments.
(3) Contingent fund report. Showing payments made, from the store's contingent fund, of various expenses, such as postage, car fares, etc.
(4) Weekly pay roll report. Showing names of persons employed.

No matter how closely each store may be supervised by traveling superintendents and district managers, the chief executives need to have at all times complete data on each store and on the whole system. The problem of running a group of stores at scattered points is a serious one and failure is sure to result unless the executives constantly have the most detailed data. The expense of gathering these data is

one of the disadvantages of chain store organization. But when the saving in expense-accounting work at each store is figured, the cost ceases to be prohibitive, and where divided among several hundred stores it becomes relatively small.

REVIEW

Describe the methods used by chain stores in their analysis of the selling field and in their merchandising policies.

What is the usual origin of chain stores?

Describe the organization of the Penney Department Store, and contrast this with other chain stores.

What are the real estate problems of the chain store, and how are they managed?

Explain the policy of chain stores with respect to buying and maintaining a central warehouse.

Describe the duties of the sales manager, the district manager and the traveling superintendent.

What are prominent characteristics in advertising and displays?

How are mail-order and local agencies helping to develop the chain store?

What are the methods of stockkeeping and the records which they entail? What are the accounting methods of the individual store and of the central organization?

CHAPTER XI

THE MAIL-ORDER HOUSE

1. *Analysis of the selling field.*—Each of the large mail-order houses has made a more or less thoro analysis of the territory in which it operates, tho in most cases this was done after the house was well started. A beginning was generally made by buying mailing lists for various sections. Some years after Sears, Roebuck and Company was founded, the company made an analysis of the United States. It was decided neither to solicit nor to encourage business originating outside of the United States, and the policy has been adhered to consistently.

One of the problems in any business is to discount any local conditions that are detrimental and take advantage of any that are good. In surveying a section it is necessary to observe as wide a variety of conditions as possible. The mail-order house is at an advantage because its appeal is general. When the cotton crop in the South is poor, the wheat crop in the Northwest may be good. The analysis must be by sections and by sources of income.

There must be constant reanalysis in order that selling plans may be adjusted to changing conditions. During the fall of 1916, a mail-order house discovered

that the farmers of Maine were particularly prosperous because of the big potato crop and the high market prices. Immediately they sent out to the Maine farmers special catalogs—"flyers," as they are called in mail-order houses—listing such luxuries as pianos and phonographs. The amount of business they obtained was surprising.

2. *Marketing policies.*—The first principle of mail-order work is that the exact truth, without reservation or qualification, must be told at all times. The catalog descriptions must be so accurate that they cannot be misunderstood. One mail-order man says that fully fifty per cent of the returns are caused by the customer's failure to understand the description. This can be largely eliminated by a persistent attempt on the part of the copy writer to anticipate any possible misinterpretations.

It is almost equally fundamental that there should be promptness in handling orders and correspondence. Mail-order houses are as a rule marvels of efficient operation. Every step in handling an order is scheduled and a record of the actual time required to handle it in each department is recorded by time clocks. As a department manager in one house remarked, "Everything here is done by schedule. We work by schedule and play by schedule; we eat by schedule and sleep by schedule; we dream schedules."

Various points in connection with the operating of a business call for decisions on policy. The classes of trade for which the house is to cater must be deter-

mined. It was only a few years ago that nearly all the business was with farmers. In fact, most houses refused to send their catalog to residents of large cities. Recently Sears, Roebuck & Company put out a special edition of Encyclopedia Britannica. One indirect result was the influence it had in helping them extend their trade in the large cities, particularly among the educated classes.

The whole marketing policy is summed up in the word "service." All retailers must serve their customers, but the mail-order house is at a greater disadvantage because of the loss of personal contact between themselves and the customer. At the slightest discourtesy in correspondence, carelessness in filling his orders or in packing, the least hesitancy to take the customer's word for shortcomings or damages, the mail-order house is put on the customer's black list. Therefore the service must be of the highest character in every respect. The slogan of Charles Williams Company is "Consider the Customer." It sums up well the marketing policy of the house.

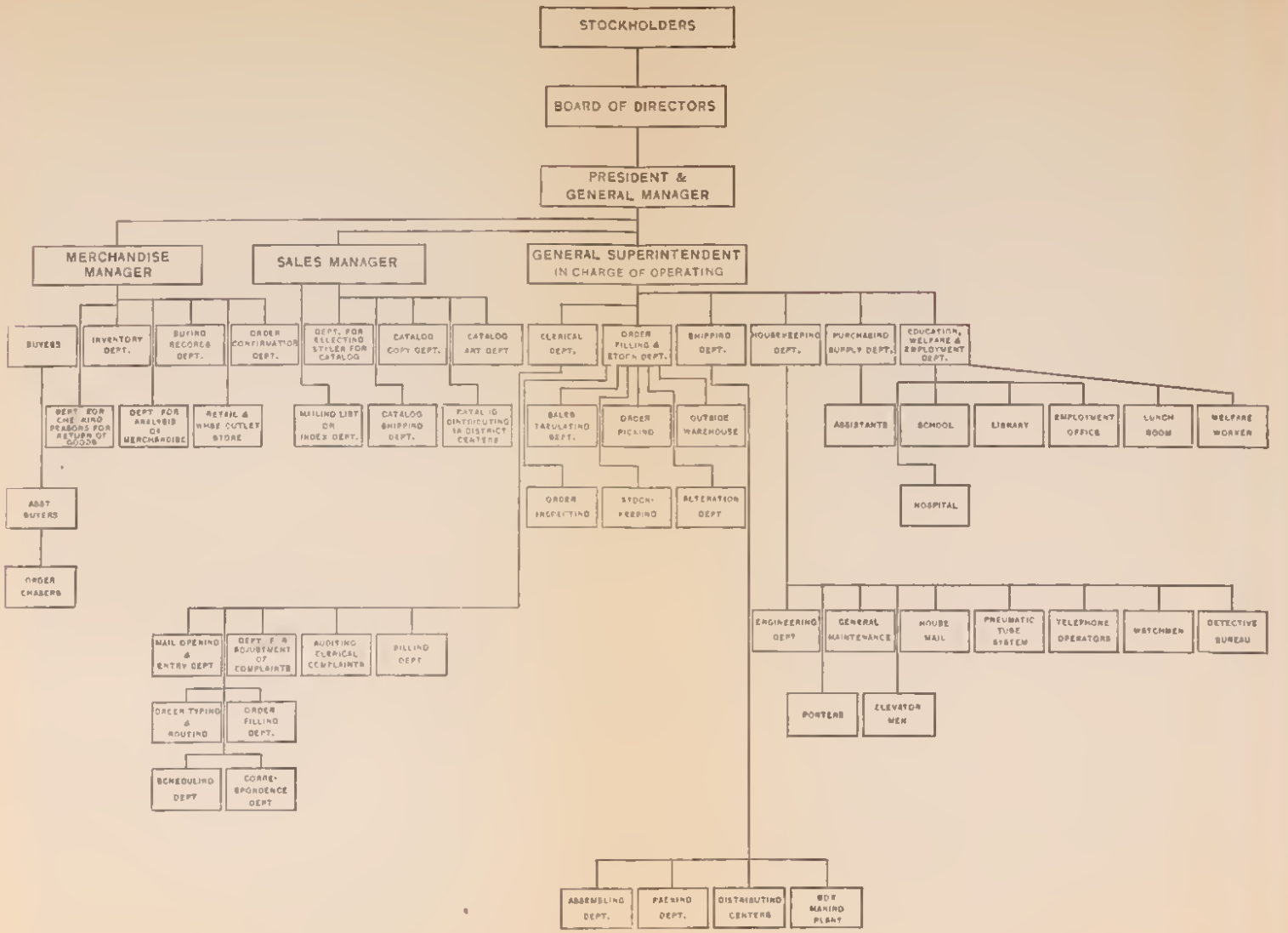
3. *Location.*—The decision on the city in which the house is to locate is another result of the analysis of the selling field, and of the determination of marketing policies. A house located in New York is seriously handicapped compared with one in Chicago in the cost of delivery and the time required to reach customers in most parts of the country. On the other hand in women's wear, in which style is more important than the extra cost of delivery or time re-

quired, it is frequently considered preferable to locate in New York, as it is the style center. For that reason Montgomery Ward & Company handle all their "fashion" merchandise from a special branch in New York City. Altho they have also a general eastern branch in Brooklyn, orders for women's wear, even tho coming from a suburb of Chicago where the main house is located, are shipped from the New York City office.

The location within the city is important from another basis. The prime requisite is a suitable building. The machinery for handling the merchandise is highly specialized, and calls for such things as gravity conveyers, spiral chutes, belt conveyers, pneumatic tubes and the like. Everything must be handled and routed as in a factory. Shipping facilities must be of the best. The eastern branch of Montgomery Ward and Company is in a public terminal building on the Brooklyn water front, while the National Cloak and Suit Company offices are situated in a newly constructed building near the west-side docks and freight terminals in New York City. The mail-order house effects a great saving over other retail establishments in the rental expense by being in cheaper rental sections. Also thru the fact that it needs no expensive buildings with window and interior displays and various service features such as rest rooms for customers.

The labor problem must not be overlooked in selecting the location. Much of the work in a mail-

ORGANIZATION CHART OF A MAIL ORDER HOUSE



order house is in a sense factory work or at least must be done on a factory basis. As a result the turnover of labor, in spite of high wages, educational classes, excellent working conditions and various types of welfare work, is higher than in department stores, and is consequently a heavy drag on the business. Conditions in the labor market vary with different cities and in different sections of the same city, so that there is some possibility of discounting the handicap. But at best it offers a serious problem.

4. *Organization.*—In general, the plan for internal organization is similar to that of any retail concern, for there are the same functions to perform. In fact about the only real difference between the operation of a mail-order house and a department store is that in the former a written order instead of a person travels around from one department to another. The general plan of functional relationship is shown by the organization chart opposite.

5. *Financing a mail-order house.*—In the past many concerns have been organized "on a shoe string." The organizer raised enough capital to advertise either in magazines or by circulars. As each order was secured, he obtained the goods from a manufacturer, so that an investment in stock was unnecessary. It is still possible to follow the same method in certain specialties, but in the case of staple merchandise, it would be impossible to get the goods in single lots at a price which would enable the mail-order man to compete with well-financed houses.

Moreover, the returns are likely to be slow in any new house. Therefore the new firm must be strong enough financially to buy in quantity at the best quantity price, and to weather a long period in which the business is getting on a paying basis.

Once the business is under way, it is run by financial budget just as a department store.

Mail-order houses are generally run on a cash basis, so there is no credit collection problem. The auditing is a simple matter as all sales are entered in the auditing department directly after the order is received.

6. *Merchandising the business.*—The merchandising aspect of the mail-order house is parallel to that of a department store. A plan for each season is made out by the merchandise manager, and each buyer is expected to follow the plan. Buyers, however, have wide latitude in large concerns. If the buyer does not earn a good profit during the season, he is summarily dropped. The turnover in buyers is almost as high as in the clerical force.

The problem of buying is complicated by the fact that prices must be maintained, if possible, for six months. One concern in the case of cotton goods, buys a six months' supply "in the gray" or unbleached and unprinted state, and then converts the goods from time to time according to the demand of color, style, design and the like. In order to secure a supply at the best prices, buyers go to any length necessary. If they can get better terms by contracting for a

mill's whole output, they do it. Sometimes they can save money by putting up factories of their own. Again, they may not find on the market just the particular article or quality for which there is a demand. But in general it is doubted if any retailer saves money, in the long run, thru manufacturing his own goods.

Various minor considerations arise in buying for a mail-order house. One is the possibility of offering a much wider range than the average retailer, and yet to make a profit from an ordinary mark-up a retail hardware dealer figures that he must make an average mark-up of 25 per cent on retail prices, and turn his stock four times a year, to make ten per cent annually on his capital investment. If he has some lines which he carries to accommodate certain customers and in which a stock of a dozen might last two or three years, it is evident he should get a higher mark-up—perhaps 50 per cent, than on the average of his line. Yet the mail-order house, selling nationally, can turn the same stock several times a year and so can sell the article at 25 per cent mark-up and make its average profit.

Another such consideration is in connection with articles for which a market must be created. The large mail-order house has so much selling momentum that it can create a demand which otherwise would not exist in appreciable quantity. For instance, the catalog of Sears, Roebuck and Company for the fall of 1916 features fixtures for water supply for farm

houses. The farmer's wife, on reading the story of the advantages of running water for the kitchen, together with the plain statement of the small expense involved, and the ease with which such equipment may be installed by the farmer himself, is more likely to urge such equipment than if she were dependent on the average country hardware store for the idea. When one stops to consider that, as one man remarked, "There's a copy of this year's catalog on every parlor table," and that it is an interesting bit of literature, it is not surprising how great a demand can be created for all sorts of things.

7. *Pricing.*—The usual practice in mail-order work is to keep under the average retail price. In reply to a direct question "Are mail-order prices always lower than retail prices?", an officer of a mail-order house said to the writer:

> For some classes of goods, yes. For others, no. A mail order house can usually sell you a cream separator, farm implement or similar article for less money than a retail store, due to economies of operation and distribution. On some lines, when you consider the shipping charges, the saving is on the side of the local store. However, I firmly believe that the real reason for the growth of the mail order business is the fact that people in rural communities have been able to save money over local retail prices by ordering by mail.

Mark-downs in price are less common than in other retail establishments. It is quite customary in retail stores to mark such articles as women's wear at 30 per cent mark-up on retail price at the beginning of the season, in order that after reductions have been

made later in the season, a desired average mark-up of 25 per cent may be obtained. Mail-order houses do not find reductions necessary, and so are enabled to mark the goods from the beginning at the mark-up which it is desired to maintain. Some reductions, however, are necessary in the case of overstocks, broken lots and slow-selling styles, and for this purpose the National Cloak and Suit Company maintain a retail store thru which such goods are sold. In this "outlet," as it is called, price reductions are not as radical as in the average department store under like circumstances. Goods are seldom sold below cost, whereas in a department store prices are frequently cut much below the actual cost.

8. *Stockkeeping.*—Each line of merchandise is carried in stock in its own departments, just as in a general store the active and reserve stocks are generally combined. Carefully systematized standard shelving is used and the whole problem of storing and handling merchandise has been worked out to a fine point. "Tickets" calling for the goods on the customers' orders are sent thru each department on schedule, and extraordinary efficiency in filling these orders has been developed. Cumulative inventories of each stock are carried and these are constantly checked by clerks, so there is little possibility that an error in the cumulative inventory will remain unchecked long enough to cause trouble. The stock-keeping and recording system in a large mail-order house is a marvel of efficiency.

9. *Sales promotion.*—Altho it is generally thought that the mail-order house uses every possible means to obtain business, upon analysis it is found that very little sales-promotion work, aside from mailing a large catalog twice a year, is really done. The mailing lists, once obtained by advertising or by purchase, are considered worth at least ten dollars per name, and every precaution is taken to conserve the good-will of those who once buy. In fact the National Cloak and Suit Company find that 70 per cent of their business is repeat business. Of course this means that the business is obtained at the small cost of two printed catalogs a year.

It is safe to predict, however, that mail-order houses will do more in the coming ten years in the way of sales promotion. Customers' lists are likely to become as active as subscription lists and other lists, where constant circularization is done to influence purchase. But there must also come a means of building the organization to keep pace with the growth. During the past ten years few mail-order houses could have absorbed much more business, and extensive direct advertising might have proved overwhelming to the organization and thus more destructive than beneficial. One of the cardinal rules in mail-order work is to anticipate the results from each offering, and provide the organization to take care of it promptly. Naturally, as long as all the business that can be handled is being obtained, intensive sales-promotion work is both unnecessary and undesirable.

10. *Advertising.*—Once the customers' lists are fairly well started, comparatively little advertising in newspapers and magazines is done, and this is limited to some special proposition which is being introduced, or which, because of some peculiar features, does not lend itself to sale from a large catalog. An illustration of this fact is found in the current advertising of the Encyclopedia Britannica by Sears, Roebuck and Company.

11. *The catalog.*—The fundamental rules of mail-order merchandising affect the building of each catalog. All copy must be of the "reason-why" type and must be written in simple, interesting language. Complete facts must be given, for the reader will take time to study the description who might not listen patiently to one given orally by a retail merchant. A certain percentage of illiterate customers are anticipated, and for them illustrations are added which tell the story over again in picture form. As the mail-order house usually offers a "wide-open" guarantee, descriptions must be expressed in language so exact that there cannot possibly be any danger of a misunderstanding.

In making up the sales plan for each department, an allowance of space is made, with its relative value. Each buyer works up the description of the articles he wishes to include, and turns it in with the merchandise for comparison and for the making of the illustrations. The advertising manager then revises each page of copy. Any disputes between the buyer

and the advertising manager are settled by the merchandise manager, under whom both work.

Past experience is a valuable aid in the development of the catalog. A quota is set for each page, for each line of goods and for different sections of each page. When an article does not bring enough profitable business to earn its quota, it is thrown out without further fuss.

Special catalogs, "flyers" and circulars are put out at more or less regular intervals. A special Christmas gift catalog is used by many houses, while a "flyer" may be sent at any time that a special opportunity offers or business seems a bit slack.

12. *Operating the business.*—One large house receives an average of 90,000 pieces of mail a day. These are delivered in special mail bags by the company's own trucks at the mail-opening cage. The postal cards and other unsealed mail pieces are separated from the sealed envelops. Letters are opened by machines capable of handling 10,000 letters an hour. The letters are examined and classified, and for each letter a schedule showing the departments thru which it is to pass and the time it is to leave each department, is attached in the form of a slip, or stamped on the back of the letter. All letters seeking information, but containing no orders are turned over to the correspondence department for reply. Orders for C.O.D. or instalment purchase are sent to the credit department for authorization. Finally, letters accompanied by remittances are sent to the indexer, who

checks each one as to descriptions, and assigns an index number to each order. A record is made of the cash received, and a slip is attached showing such receipt. The money is turned over to the cashiers for entry and deposit. Next it goes to the routing department where the freight bill is headed; the details of each item are added when shipment is actually made. Then the order with the freight bills is sent to the entry department, where a ticket is made out for each department from which goods are required. Each order receives a basket number at this point. These tickets are sent to the pricing department, where prices are added. The original order goes to the letter information desk while the tickets go to the various departments where an "order picker" selects the goods desired and sends them with the ticket to the shipping room. The goods from each department, when received in the shipping department, are separated according to basket numbers and each order is assembled in its own basket. The schedule is attached to each ticket so that all goods on order are required to reach the shipping department at approximately the same time. Here the goods are rechecked, packed, weighed and shipped. In the meantime the original order is acknowledged at the letter information desk, and any questions are answered. In case the merchandise picker is unable to ship an order promptly or must for some reason omit an item, a memorandum is sent at once to the letter information desk as a basis for a letter, and a

notification of omission is sent the packing department. From the letter information desk, the original order goes to the billing department where the check is totaled and then if any refund is necessary, to the banking department. Finally, it is filed, geographically by post offices and alphabetically under each post office.

Various special modifications in operating methods are found in each house. For instance, the National Cloak and Suit Company have their own agents in various centers who receive large shipments containing a quantity of orders and reship to individual customers. The orders of a single day for all places within the first two parcel post zones from Ann Arbor, Michigan, are sent to the local representative in one large case. Each article is separately packed, addressed and stamped for reshipment from Ann Arbor to local and nearby points by parcel post. The saving in expense is not important, but the merchandise reaches the customer in much better condition than if it had been sent as a single package by express or parcel post from New York.

As has been previously remarked, the systems and particularly the machinery used, have been exceedingly well worked out in each large house. But after all, there must be the human element. It is estimated that the average order passes thru fifty-five or sixty hands in its schedule. If anyone blunders badly the whole machine is tied up. Therefore, there must be constant supervision to see that each task is done cor-

rectly as well as on schedule time, for there is no advantage in getting an order thru the entry department within the particular ten minutes allotted to it if it is not properly entered. Consequently each large organization maintains an efficiency staff to study the system and develop improvements, a great corps of department and section heads—the latter having on an average only a dozen workers to supervise—and in addition an elaborate educational system for the training of both old and new employes.

REVIEW

What are the chief advantages of the mail-order house in retail selling?

How does the choice of a location and building for a mail-order house differ from that of a department store?

Describe the usual development of the mail-order house.

How does the buying policy of a mail-order house differ from that of a department store?

How do prices compare with those of other stores? How are they fixed and how are overstocks disposed of?

Why have mail-order houses done little general advertising or sales promotion?

What are the requirements of the catalog, and how is it prepared?

Describe the operations of filling an order.

CHAPTER XII

THE COOPERATIVE STORE

1. *Reason for the cooperative movement.*—The big idea behind the cooperative store movement is to substitute the "pull" of the customer for the "push" of the profit-maker. The "cooperators"—the men who are interested in this cooperative store movement—may roughly be divided, according to their reasons for joining this movement, into three classes.

1. Small consumers who are forced by necessity to economize as much as possible on the necessities of life.

2. A group of high-minded men who as customers of retail stores feel there is considerable waste in the present system of distribution, and who wish to bring about more social efficiency.

3. A group of men, mainly large employers of the working classes, who are trying to advance the cooperative movement, thru propaganda work, for future betterment and social reconstruction.

If a cooperative store is to succeed, a good deal of missionary work is necessary. Contrary to the usual impression, it is far more important to select the members and to make them understand the cooperative movement, its ideals, the difficulties that will be encountered, and the kind and amount of coopera-

tion required of each member than to pick a manager. Generally in small communities, this work is done without pay by volunteers interested in the cause. In larger communities, however, trained organizers or "missionaries" are engaged for the work.

Probably the oldest and best known cooperative store is that organized among the weavers of Rochdale, England. Its success is probably due largely to the class consciousness in England, which bands closely together the people of one station in life. As we have little of this spirit in America it is not so easy to hold the members together. The moment they see an independent dealer cut prices on an article, they are inclined to desert the cooperative store, even if they know the cut is only a bait, or a "loss leader," to break up the trade of the cooperative store. Therefore it is very necessary in America to impress new members thoroly with the cooperative idea. Most failures in cooperative storekeeping in this country have resulted from a lack of the conviction among members that they should give the store undivided support.

2. *Starting a cooperative store.*—In America many successful cooperative stores started as small buying clubs consisting of about a dozen members. In such an organization the members get their first taste of the difficulties to come, but in such small doses that their enthusiasm is not dampened. Usually the profits on the purchases, instead of being returned to the purchasing members, are allowed to remain in the

treasury and accumulate. A small reserve is soon built up, which is very helpful when the group decides to open a store.

This trial stage is most advantageous; in fact no cooperative society should attempt to advance beyond the preliminary or buying-club stage until it has organized its market—in other words, its membership. Occasional trade and the trade of those who will desert the movement in the first storm, cannot be counted. Therefore the members of the first little group, usually a dozen or so, are selected one by one, in order that they may form a strong nucleus around which the larger society may be built.

Generally the buying club does not open a store until there are from fifty to one hundred members. Each signer agrees to take stock to the value of from $5 to $100, paying what he can at the time and the balance in instalments. At least $500 should be paid in before the store is opened. One of the most successful cooperative societies, that of Montclair, New Jersey, waited until it had over $6,000 paid-in capital. Its rapid development is probably due partly to this fact. The capital required, however, will vary with the type of store; of course, efforts are constantly made to bring in new members of the right sort, in order that the working capital may be increased. In some cases, there are two classes of members, one consisting of stockholders, and the other consisting of those who pay only a small initiation fee, or who agree to buy a certain amount of goods monthly.

3. *Organizing the store.*—As soon as possible an organization meeting is held and a lawyer is retained to assist in the incorporation. Valuable aid in the whole development can be obtained from the officers of other cooperative societies. The usual officers—president, secretary and treasurer, as well as a board of directors or an executive committee—are elected. Naturally the board of directors will select the store manager and keep a close watch on the store's business. There is usually also an auditing committee that goes over the books of the store manager at regular intervals.

The store should not develop too rapidly, for with it must develop public opinion, and that is always slow in crystallizing. The percentage of failures is high at best, but the great majority of them are among stores that have grown faster than a membership of the right kind and a public opinion of the sort necessary to success could be built up. The gradual development, the first stage of which is represented by the buying club, is the best.

A somewhat different method of organization is found in the Nelson Cooperative Association of New Orleans. A few years ago Mr. Nelson decided that there was need for a cooperative store; he tried to get others interested in the idea but failed. Then he decided to organize a store first, and make it cooperative afterward. He started one little store and gradually added several more. In 1914 he organized the group into a cooperative society, with shares of $5.00

par value which pay seven per cent dividends. By September, 1916, there were sixty groceries and four meat markets, and the volume of business transacted during the year ending that month was over a million dollars.

4. *Store manager.*—About the first thing the board of directors must do is to select a thoroly competent store manager. The manager must not only know how to run a retail store, but he must also be very tactful, in order that he may be able to work harmoniously with the members of the association. He must be an enthusiastic cooperator himself, and must be thoroly familiar with the cooperative movement, in order that he may advise with the directors and the members when the time comes to outline the business policies.

5. *Budget.*—At this point the directors should work over the preliminary estimates of working capital, sales and profits, and from them develop a budget for operating. In a cooperative grocery store the running expense should not amount to more than 10 to 14 per cent of the gross sales. The experience of other cooperative societies is always of value in figuring out the business policies, and in checking up the corresponding budget for operating. For instance, many cooperative stores get along at the beginning with a store in the home of a member or in a cheap basement. Under such circumstances the budget for rent can be kept down to the minimum; it can be increased later, as business grows and better accommodations are needed and can be afforded. Some stores

keep their rent down to one or two per cent of their gross sales.

6. *Business policies—location and equipment.*—As a matter of fact, the general business policies and the budget must be worked out at the same time, since each may change the other. The Montclair Cooperative Society opened with a fine store because its working capital warranted its doing so, and because its class of trade could not be appealed to except thru the medium of a modern and attractive store in one of the best retail sections of the city. In general, however, the expense for rent and fixtures is kept very low. In developing a cooperative store it is more important to operate a very neat and clean store than to have a select location and fine equipment.

7. *Buying and stockkeeping.*—Cooperative stores generally begin with a grocery line, and add meat and other lines as they become established. The store manager analyzes his market as carefully as if he were an independent merchant just starting in business. He has a great advantage over the independent dealer because he can readily estimate the exact qualities of merchandise desired by every family among his patrons, as well as the amount purchased monthly by each.

Profits in cooperative storekeeping, as in every other kind, depend much on keeping the investment in stock down to a minimum and in turning over the stock as frequently as possible. There is no way to compete with chain groceries that turn over their stock

nearly every week except by doing the same thing. Therefore the store manager must buy in small quantities so far as this kind of buying permits him to give fair prices and to keep complete stocks of standard articles.

Most managers of cooperative stores buy from the regular jobbers at first, as the manager of any other store does; but sometimes they are unable to do so, for some jobbers refuse to sell to cooperative stores. Other managers have succeeded in going over the heads of the jobbers altogether and buying direct from the manufacturer, in many cases, as chain and department stores do. The method, however, is not so important as the price, the quality and the service that the manager obtains from his source of supply, whether it be manufacturer, jobber or broker. In Illinois a wholesale society was recently organized by the cooperative stores in order that they might be able to buy in large quantities. They estimate that the 43 local cooperative stores in that state sell at least $2,000,000 worth of goods a year, and that they can save over $100,000 a year by pooling their purchases. Such buying is the next step in the evolution of the cooperative store method. Only recently a number of stores in New York State have also formed a wholesale society in order to secure the large discounts that chain stores have been able to secure from manufacturers.

A few cooperative stores do some manufacturing. The Nelson Cooperative Association now have a

creamery of their own, and they are also building a big bakery, which will supply bread to all of their sixty stores. Other cooperative stores also are establishing their own bakeries, and some are even planning to operate farms that shall supply the stores with dairy products and vegetables. The activities of a cooperative store can be extended indefinitely. The original cooperative store in Rochdale, England, has now its own fleet of steamships for the importation of coffee, tea and other products not grown in England.

8. *Sales policies.*—Most cooperative stores plan to sell at the regular retail prices, and then pay the members substantial dividends on their purchases. The Montclair Cooperative Society, however, plans to meet the chain stores at their own prices, and sells everything at just as low a price as possible. It hopes to attract in this way a larger volume of outside trade and to cut down the overhead expenses by increasing the volume of sales. It has found that the chain stores are cutting prices very low on only about fifteen or twenty articles, and since these articles constitute only five per cent of the business of this cooperative store, it feels that it can well afford to meet the chain's prices. One cooperative store cuts prices on all advertised goods, except those in regard to which they are bound by a definite contract, which, of course, they respect. Many cooperative stores, however, do not handle any advertised brands.

9. *Deliveries.*—The members of a new cooperative society are usually recruited from one locality, and

from within a small radius, so that they can conveniently either come or send for the goods. It is generally wise not to operate any delivery system at first. Some cooperative stores continue on this plan, and never deliver goods; such a policy, of course, cuts down the expense greatly. Other stores, however, operate a delivery system, but try to keep down the expense as much as possible in other ways. People have become so accustomed to having goods delivered that it is very hard to get them actually to come to the store with a market basket. Sometimes enthusiastic cooperators do this at first, but after the novelty of this method has worn off, they get tired of it and demand a delivery service.

A number of cooperative societies have made an effort to distribute the expense of the delivery service equally among those who benefit by it. One cooperative store keeps track of the number of deliveries made to each of its customers, and deducts seven cents for each delivery from the dividends paid at the end of the quarter.

10. *Credit policy.*—It is generally assumed that if the members of the cooperative society are really in earnest in their effort to reduce the cost of their purchases, they will not ask for credit privileges. Any credit system is bound to add from one to three per cent to the cost of doing business. Moreover, it also requires a great deal of discretion on the part of the manager. Therefore cooperators usually consider it unwise to adopt a credit policy in any new store.

Some cooperative stores, however, allow their members to run a charge account, which must never exceed the amount of the paid-up shares of capital to which they have subscribed. This qualification, of course, safeguards the store. Sometimes it is necessary to grant credit for a week at a time—when, for instance, the members are mainly working men, who usually have money only on pay day. In the ordinary store, the chief value of a credit system is that it attracts customers to the store and leads them to buy everything at the one store. The cooperative feature removes the need of such a motive for credit.

One very successful cooperative store actually refuses to allow anyone to charge goods. One member of this cooperative society, the wife of a millionaire, once stopped at the store to buy a few things for dinner. She found she had left her money at home, and one can imagine her chagrin when she realized that she could not charge the things she wanted. She had to go out to her automobile and borrow the money from her chauffeur in order to buy the goods. This store maintains a system of cash deposits; a customer can deposit from ten to fifty dollars at the store, and then have small purchases charged until the amount is exhausted. A statement of purchases and of the amount of deposit on hand is sent to each customer every Monday. The same store does a large business in telephone orders, which are delivered "cash on delivery." The goods are brought back to the store if the money is not paid to the driver. About one-third

of this store's business is done over the counter on a cash basis, one-third by telephone orders and cash on delivery; the remainder by the system of cash deposit.

11. *Advertising.*—Whether or not the cooperative store shall advertise depends on whether the store intends to sell to members only, or to outsiders as well. A number of cooperative stores believe in advertising, since in this way they can increase the volume of their business and thus decrease the overhead charges. It is very often possible to double the volume of the business by advertising without making any material increase in the overhead. Other cooperative stores, which do not use newspaper advertising, publish a little price list of their own and distribute it among their members.

12. *Salesmen and salaries.*—The success of the cooperative store will depend largely upon the selection and training of the salesmen. Courteous, well-trained salesmen will always be a big help in keeping the members enthusiastic about the store. The manager of the grocery store must insist that the clerks always be very neat and clean, and that they wear clean white uniforms whenever possible. The men in the meat department of the grocery store should be especially careful in regard to cleanliness. There is much that the manager can do to show the clerks how to sell more merchandise; he can also teach them a great deal about the goods they are selling. Of course, his problem is

the same as that which the manager of any retail store has to handle.

Most cooperative stores feel it necessary to pay their salesmen on a straight salary basis, altho they try to treat them as liberally as possible in regard to the amount of salary, their vacations, the working hours and the like. A few stores follow the example of the cooperative stores in Scotland, in making a regular practice of dividing the profits with the employes. For instance, Mr. Nelson, in New Orleans, divides twenty per cent of the profits of the stores with his employes, giving each a share proportionate to his wages. Thus the employes receive a good dividend, and have an incentive to avoid waste, to practice economy and to increase trade by being honest and courteous. They have the saving on the cost of goods which they purchase, as customers, and the interest on salary, as employes. This plan could undoubtedly be adopted very successfully in other cooperative stores.

13. *Accounting system.*—It is a costly policy for a cooperative store to try to economize too much on accounting. A good accounting system will in almost every instance more than pay for itself, not only by furnishing facts and figures in regard to the business that is being done every day, but also by indicating tendencies in the business. In short, it will enable the manager to make the store even more profitable in the future. Naturally the co-

operative store needs practically the same kind of accounting system as any other kind of retail store, altho it is not necessary to have an elaborate system, inasmuch as most cooperative stores do not have charge customers.

14. *Keeping track of members' purchases.*—If dividends are to be paid on the purchases it is, of course, necessary to keep careful record of the purchases made by each member, and the total made by all members. The Cornell Cooperative Society, which maintains a cooperative store for the benefit of the Cornell University students, has worked out a very interesting plan for doing this. They have a cash-register system, which prints little receipts with the amount of the sale, the date, and the name, "Cornell Cooperative Society," stamped at the top. A receipt is given to the student, who signs his name across it in ink, and then deposits it in a box placed near the cash register for that purpose. These receipts are allowed to accumulate in this box until summer. Two extra clerks are employed to sort the receipts and figure up the amount of each student's purchases. When the student comes back in the fall, he simply has to call and get the eight per cent dividend that the store pays on his purchases.

Other cooperative stores maintain a system whereby the purchases of each customer are recorded in two books—one kept by the manager, and the other by the customer himself. Then, at the end of the quarter, the customer brings his book in and has it audited

and checked with the books of the manager. This system, of course, involves a little more trouble and expense than the one described immediately above.

A third system requires that each sales ticket be made out in duplicate. The original is given to the customer, and the duplicate is turned in by the clerk to the manager's office at the end of the day. After the manager has checked up the tickets, he turns them over, with his tabulated statement of the day's sales and his receipt from the bank for money deposited, to the treasurer or the financial secretary of the society. The latter makes up the dividend statement of each member quarterly, and this the member can verify by checking against it the sales tickets that he received with his purchases.

15. *Distribution of profits.*—All cooperative stores that have a shrewd management try to accumulate a surplus as soon as possible. They usually do this by setting aside a good part—say, ten per cent—of the profits each year until a comfortable surplus is built up. Of course, in some years it will be necessary to put a part of the profits back into the business, but ordinarily the profits will be divided up between the owners of the stock and the customers.

The big difference between the financial plan of cooperative stores and that of other stores is that in a cooperative store capital is simply paid a small, reasonable rate of return, and after that all profits are divided pro rata among the purchasers. In private business all profits, of course, go to the stockholders.

The amount of the profits to be divided can be easily determined, as well as the total sales for the quarter or the half year. It is then very easy to determine the amount of the dividend that can be paid on the purchases. This dividend is usually paid in cash.

Members are usually allowed to buy stock on the partial-payment plan. In such cases their dividends on purchases are, of course, credited as a payment on the stock until the stock is fully paid for. Thus a member can pay for his stock out of the dividend on his purchases.

REVIEW

What persons usually undertake the establishment of cooperative stores? What is the nature of the "missionary" work which should precede the founding of the stores?

Why should care be exercised in the selection of members? Of a manager?

What principles should be followed as to buying and stock-keeping? As to deliveries? As to credit? As to advertising?

Explain the special requirements for the accounting of a co-operative store.

Describe methods followed in the distribution of profits.

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